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## WEST EUROPE REPORT

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## PROJECTED DEFENSE ATTITUDES, POLICIES, CHANGES FOR 1980'S

Paris CONTREPOINT in French No 33, Summer 1980 pp 21-34

[Article by Yves Laulan: "French Armed Forces on the Threshold of the 1980's"]

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Rarely in its history has France ever been as preoccupied with internal affairs as it was in the late 1960's. With the end of the Algerian War, France began to hold itself almost completely aloof from foreign affairs, except those of commercial interest. Until the oil crisis, its misappreciation of events concerning the outside world and its dangers had steadily worsened. This profound lack of interest was clearly evidenced by the fact that international politics or defense policy were never an issue in presidential elections, and even less so in parliamentary elections.

The Algerian war played a determining role in this regard. It was as if that war had drained the nation of all its reserves of emotion and passion in one fell swoop.

We could even ask ourselves whether this episode was not the underlying cause of France's partial withdrawal from NATO. In fact, that withdrawal might even be attributed to collective frustrations triggered by the ill-accepted failure of an impossible undertaking, and at the same time by the way France had been blacklisted by its neighbors and allies during the long painful years of that war.

## A Side-Stepped Debate

But we would probably have to reach further back and probe the dim recesses of our national conscience to detect in that withdrawal an even more ancient rancor dating back to the defeat of 1940 and the humiliation of having been rescued by foreign military forces.

Noteworthy is the fact that this withdrawal from NATO was a remarkable psychological and political operation. There are indeed, very few statesmen who would have been able to carry out the admittedly subtle distinction between withdrawing from NATO's integrated military organizations and keeping our country in NATO's civilian agencies, notably the International Staff.

Consequently at the close of the Gaullist era, French public opinion did not feel much concerned about the outside world or national defense. In the early 1970's, France was, therefore, floating about in a state of weightlessness with respect to security matters. Its reaction to such matters boiled down to a liturgy of remembrance among older citizens and profound indifference among younger citizens. Compulsory military service appeared to be a waste of time which was especially unbearable in that it was associated with a degree of subordination that became less and less tolerated in an era of protest against all discipline and authority.

Numerous surveys and investigations conducted at that time revealed the deep morale, financial, and operational crisis in the armed forces, particularly within the conventional forces. The underlying reason for such a state of affairs was that France seemed to have inherited a military instrument it was hardly in a position to handle. France's nuclear force was a suit of armor much too large for too small a body, and the conventional forces, distended by the draft, hung loosely like an oversized coat. There were too many men, too many barracks, too many officers and noncommissioned officers of dubious ability or efficiency, and not enough support equipment, armament, and training facilities.

Some 10 years later, in spite of the resolve to reform our military instrument, and despite unquestionable improvement in the status of our forces, the situation has not fundamentally changed. And yet, in this the first year of the 1980's, security continues to be our most precious possession.

After so much effort designed to give it an instrument of deterrence to guarantee its independence, France thus finds itself in a state of extreme vulnerability to any kind of external threat. If imperiled, a collapse comparable to that of 1940 could occur. From the red trousers of the pre-1914 infantry to the impassible Maginot Line, and down to the contemporary nuclear strike force, France has always serenely advanced toward the most carefully prepared disasters in history.

## Economy and Defense

It can be assumed that economic restraints did not have any really decisive influence on our defense effort. The overriding consideration in the allocation of funds were foreign policy considerations, namely General De Gaulle's decisions on national independence and the nuclear strike force. It could be an altogether different matter in the future. The oil crisis, events in Africa and Southeast Asia, and the danger of being cut off from our oil supply sources are raising our national consciousness in the face of potential external threats. This is also a time when deteriorating public finances and the burdensome weight of unemployment are reducing available resources while the cost of military technology continues to climb steadily. The choices confronting France are, therefore, much more difficult than during the 1970's.

The status of our defense expenditures can be assessed from two points of view. First, when compared with our neighbors and allies, our defense effort is quite respectable. Secondly, however, it could be argued that with regard to the main objective of our foreign policy--national independence in defense matters--the French performance is far from ideal.

### Fifth Ranking in the World

When compared with its neighbors, France is evidently not doing too poorly. In 1978, it allotted 17.5 billion dollars to its national defense versus 13.6 billion by Great Britain, 21.3 billion by the FRG--8.6 billion dollars by Japan--thereby ranking France as 5th in the world behind the USSR, the United States, China, and the FRG. On a per capita basis, Germany spent 242 dollars on defense in 1977 and Great Britain 191 dollars, while France spent 241 dollars. Nevertheless, Germany's defense budget is, in absolute terms, 40 percent greater than the funds allotted the French forces. Deducting outlays for the French nuclear force, the German Army has twice as much money for equipping its infantrymen.

Compared with its announced national defense goals, the French defense effort seems insufficient. Michel Debre, a former defense minister, estimated that France would have to allocate 9 percent of GNP to be totally independent of American support. At the present time, however, the French percentage is only 3.2 percent of gross domestic product (GDP), versus 3.4 percent in the FRG in 1977, 5 percent in Great Britain, 6 percent in the United States, but admittedly only 2.4 percent in Italy. The Fifth Republic's political resolve did not enable France to avoid a decline in its defense effort, a phenomenon that has, after all, plagued all Atlantic Alliance countries--the United States included--these past 15 years.

Defense's share of the gross domestic product amounted to 5.57 percent in 1961. It gradually declined to 3.1 percent of GDP in 1974. The defense budget's share of the total national budget fell from 26.7 percent in 1961 to 16.2 percent in 1975. Paradoxically enough, this process of decline occurred throughout that period of nationalistic assertiveness. It is true that since then the defense effort has increased slightly. Defense expenditures--not including military pensions--as a share of the gross domestic product rose to 3.19 percent in 1975, 3.15 percent in 1977, 3.18 percent in 1978, and 3.2 percent in 1979. Nevertheless, despite this increased percentage of GDP, the defense budget's share of the national budget varied little: 16.8 percent in 1976, 16.2 percent in 1977, and 16.8 percent in 1978 and 1979.

The 1977-1982 military program, approved in May 1976, calls for the defense budget's share of total government expenditures to be raised to 20 percent, or 3.6 percent of the gross domestic product, by the end of a 6-year period extending into 1982.

#### Economic Factors

Notwithstanding the relative improvement made in the past few years, how can this downward trend in our defense effort be explained?

Economic factors as well as limited resources did contribute, but not in any essential fashion. We cannot attribute this trend, as in Great Britain's case, to a low economic growth rate--today, however, that argument could become much more valid--or to balance of payment difficulties. On the other hand, as in all Western countries, defense requirements ran into competition from other types of expenditures. Since 1973, social security benefits have multiplied 2.5 times and unemployment benefits have quintupled. Expenditures for social programs continue to increase in volume at an annual rate of 6.7 percent. The Ministry of National Education's budget has doubled in 10 years and equals the defense budget. All this is true, but the relative decline in the defense effort cannot be accounted for solely in economic terms. Hence that decline is due to other reasons.

At peace with Third World countries and on friendly terms with the Soviet Union, France has had no external enemy since the Algerian War. As a result, the general public has a feeling of almost complete security. France's leaders have convinced the public that the nuclear strike force and the doctrine of deterrence are enough by themselves alone to guarantee our protection.

Furthermore, our authorities have often avoided any public discussion, as is common practice in other countries, on the question of financing our national defense effort and on the issue of security. Discussions

past few years about construction of the sixth nuclear submarine were essentially political in content and not military; in fact, government leaders took great pains to side-step a debate that might have prompted critical reappraisal of earlier decisions. For their part, the general public and political parties showed no excessive curiosity.

#### National Independence and Nuclear Strike Force

Ever since 1966, in other words since our withdrawal from NATO, the assertion of French national independence, and the creation of the nuclear strike force, our military policy seems to be caught in a dilemma from which it cannot manage to free itself. We could point out inconsistencies between the affirmation of our national defense's independence and the financial constraints imposed by the mounting cost of armament procurement and by our limited domestic market; or also the inconsistencies between maintaining the draft, for social and political consensus reasons, and the requirements of modern warfare which demand highly trained professional (or career) specialists.

Given the international environment, these difficulties are now compounded by the need to equip intervention forces capable of operating in Africa or the Middle East. This series of requirements shapes the perplexing problem confronting our military policy.

It must be realized that the weighty principle of "national independence" deprives France of a certain number of options. For example, it is impossible for France to confine itself, as Germany does, to one particular function such as, for instance, defense of one part of NATO's territorial defense system with conventional forces and weapons. Consequently the French armed forces bear a triple burden: maintaining an independent nuclear force, maintaining conventional forces designed to defend our borders, and lastly, organizing intervention forces for external operations. This threefold mission implies possession of a complex range of equipment and logistical capabilities commensurate with those of great continental powers like the Soviet Union and the United States, whether it be mastering advanced nuclear techniques such as miniaturization and hardening of nuclear warheads; or maintaining new forces; or developing conventional materiel for air, ground, or sea employment; or developing equipment necessary to long-range airborne operations. The multiplicity of these tasks exceeds, and by far, our financial capabilities. This difficulty is aggravated by the rapidly rising cost of weapons under the dual impact of inflation and technological advances. Unlike Great Britain and Germany, our political decisions and policies prohibit us from purely and simply relying upon borrowings from foreign technology, particularly American technology.



## Arms Race

The figures on skyrocketing prices speak volumes. Armament production costs are rising more rapidly than the French armed forces' capacity to purchase them. For instance, it is estimated that the price--in 1975 francs--of our combat aircraft has quintupled in 20 years while the air force's annual equipment procurement capability has been divided by 3.7.

Price increases listed in the 1977-1978 armament programs were much greater than the inflation rate. In constant francs, and tonnage being equal, the price of a tank has doubled in 15 years and the price of a ship has tripled. Some 15 years ago, the French Army paid 350 francs for an MAS-36 rifle, whereas the new Clairon 5.6-mm rifle to be issued to infantry troops costs nearly 5,000 francs. An AMX-13 tank was priced at 1 million francs in 1960, but the price of the AMX-30 is 4.5 times higher. In 1973, a Mirage 3F1 aircraft cost 13.5 million francs; today, the Mirage 3E sells for 23 million and the Mirage F1 for 33.5 million. The new Mirage 2000 will cost nearly 60 million francs and the Mirage 4000--designed to rival the American F-18 and Soviet MiG-25--will be almost twice that figure.

In this connection, some experts unhesitatingly contend that French aeronautics is already suffering from a technological "gap." French aircraft design and manufacture is said to be one generation behind, especially in airborne electronics. The F-15 fighter, the latest American aircraft, can simultaneously fire on 6 targets at a range of 150 kilometers. The Mirage is able to fire on a single target and only at a range of 60 kilometers. Aircraft profiles are likewise a generation behind. Experience gained in the Yom Kippur War shows the need for a dogfight capability at medium altitude. The famous F-15 air superiority fight has a small turn radius and meets these criteria, while the Mirage 2000, an improved derivative of former generations, does not represent a change in generation.

## Lagging Behind in the Technological Race

France is not the only country hard hit by higher costs due to inflation and technological advances. But France is a medium-size power with a limited market, and not a continental power. It is liable to continue to lag behind in the technological and production race.

The Soviet Union is capable of producing 800 to 900 tanks in 6 weeks, in other words, the equivalent of France's current total tank inventory. France has less armored vehicles than Great Britain and the FRG, and even less than Syria or Egypt. It has less aircraft than Syria, Poland, or Egypt, but as many as Czechoslovakia. Our navy is not adequate to maintain surveillance of our coast (Guy Daly in *POLITIQUE ETRANGERE* No 3, 1978).



## Abandoned Projects

How did France endeavor to extricate itself from the maze of contradictions? It did so at times by costly or even wasteful abandonment of projects. Just before the first flight of the prototype of the Marcel Dassault ACF (next generation combat aircraft), the government abandoned the project. The 715 million francs spent on its development was a wasteful expenditure. At Brest, the corvette Aconite is one of the best ships of its type, yet no others are to be built. Its radar, the DRBV 13, is a marvel, but it is also a very rare item because there are not 2 of them. The AMX-30 bridge-laying tank was never completed. Other projects also abandoned include the variable geometry aircraft, the vertical takeoff Mirage 3 and 5 aircraft, and the Breguet 440 and 441 short takeoff and landing aircraft.

When they do not die, projects are subject to numerous delays. Instead of the initially planned purchase of 20 Mirage 2000's, the armed forces have ordered only 4, and 3,000 Clairon [rifles] instead of 26,000, 71 Super Etendard [naval strike fighters] instead of 80, 2 AMX 10RC [reconnaissance armored cars] instead of 30, and 620 RR [(?) air-to-air] missiles instead of 840. In other words, costs and financial resources are reconciled by slashing the number of production models ordered. This is a hybrid compromise which consists in producing a little of everything.

Another answer to the cost problem has been to export, in other words, sell arms abroad.

## Arms Sales

Exporting is viewed in France--as well as in Great Britain--as one of the essential conditions of a national arms industry's survival. Our arms industry is important from the standpoint of employment. With an annual volume of business of 40 billion francs, it provides work for

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\* This is an historical characteristic of French arms procurement. One of the causes of France's insufficient materiel in 1940--particularly aircraft and tanks--was the existence of highly efficient major items of equipment but only a very small number of each item. General Beaufre has said in this regard that "though high-technology conventional weapon systems are within the means of medium-size nations, their price is so high that the quantity of these weapons is quite insufficient to fill a decisive or at times even notable military role." We may, therefore, legitimately ask whether France in 1980 is not repeating its 1940 mistakes.

nearly 300,000 persons, almost one-third of whom are in the aerospace industry alone. With 1.25 percent of the working population and 3.6 percent of the industrial labor force, the arms industry is by no means an insignificant asset. By adding its subcontracting activities, we get a total 410,000 employees, i.e. 1.8 percent of the working population and 5.2 percent of all industrial workers. Some 60 percent of these persons are employed outside of the greater Paris area and in the not very industrialized southwestern and southeastern regions of the country. Furthermore, exports bring foreign currency into France and help counterbalance part of our oil bill. Taking 1 year with another, arms sales abroad average about 25 billion francs, or almost half of the nation's oil bill. Some 41 percent of the armament industry's volume of business is now in export trade, compared with 16.2 percent in 1970. France ranks third, behind the USSR and the United States, with 6.3 percent of total world arms sales.

The armed forces pay manufacturers for research activities they would be unable to finance by themselves alone. In 1978, this financial support totaled 9 billion francs. The technological "fallout" is considerable, for example, in the semiconductor field. Arms industries allot 20 percent of their volume of business to research--versus 3 to 10 percent in other industries--and research contracts awarded by the General Directorate for Armament account for nearly one-third of the government-financed research effort.

But the main purpose of the French export effort is to maintain an autonomous national arms industry as the indispensable foundation of our country's policy of independence. Actually, only arms sales abroad can enable an industry to have production runs long enough to be profitable.

Our foreign sales effort is running into stiff competition, not only from traditional producers but also from such formidable new manufacturers as Israel. Moreover, there is another and darker side to this picture. Military authorities inevitably complain, more or less loudly, that specific requirements of the French armed forces are at times being sacrificed for the benefit of foreign buyers.

To promote the foreign sale of certain items of equipment, our armed forces have had to equip themselves with materiel for which they have not always had a clearly established need. Such was the case with the Mirage F1 issued to the air force for purposes of the highly publicized aircraft "deal of the century." [European purchase of the American F-16]. Furthermore, there are some who blame export considerations for having an inordinate influence on the technological aspects of French weapons. These critics argue that some types of equipment are better adapted to the more rudimentary maintenance necessities of developing nations than to the imperative requirements of the European battlefield.

In addition to procuring equipment that does not always adequately meet their requirements, the French armed forces are also said to be victims of the export trade as far as deliveries are concerned. Our forces are the last ones to receive delivery, and to such a point that our arsenals are filled only after those of foreign buyers.

What will happen in the future?

#### Cooperation With Our Allies

In spite of the moral reservations expressed during the 1974 presidential campaign, we can foresee continued expansion of our exports because of the new pressures on our foreign trade. But at the same time, France will probably be more and more inclined to cooperate with its allies. This is already happening. The antitank helicopter and the EPC (main battle tank) will probably be French-German projects. The ACT 92 combat aircraft, the Jaguar's replacement, will be a French-British project. Naval surface-to-surface missiles and new antitank missiles will be jointly produced by Germany, France, and Great Britain, and likewise the antisubmarine corvettes, the future aircraft carrier, multiple rocket launchers, and the new combat aircraft. Many persons have reservations about this cooperation.

From a political standpoint, any cooperation seems to foreshadow a certain surrender of sovereignty, a return to the NATO fold, and implicit subordination to American technology. On a strictly technical level, cooperation does not appear to be a miraculous solution. As noted in a recent parliamentary report, a cooperative development program is 50 to 60 percent more expensive. The French-German Alpha jet shows that such development also produces technical contradictions. To satisfy both partners, this aircraft's performance characteristics were multiplied and hence also its price. The French-English Jaguar required five different versions. Nevertheless, regardless of the difficulties, France will surely be compelled to become increasingly more involved in collaborative projects with its allies, mainly within the European framework, whether it be within the GIEP [Independent European Program Group] created in Rome in 1976, or elsewhere.

Transfers of technology are always made by the strong to the weak. And it is in Europe that France feels it is technologically and politically the strongest.

#### Two Major Debates

In France during the past 20 years there have been 2 major debates on defense issues. Both marked a profound change in general strategic concepts. One debate occurred in 1960 with General De Gaulle's formulation of the doctrine of nuclear deterrence, the cornerstone of French

defense policy during the 1960's and early 1970's. The other debate took place in the spring of 1976 with the shift initiated by Giscard d'Estaing toward a more flexible military doctrine adapted to the new technological and international realities.\*

#### Giscardian Doctrine

Since 1960, our military policy has been based on 2 principles, namely nuclear deterrence and the independence of our national defense. This policy and the strategy derived from it rest upon recognition of one principle: by virtue of the atom's equalizing power, no nation possessing this power in the nuclear age need have nuclear weapons and forces equivalent to those of a great power. Deterrence of the strong by the weak is possible, on condition that the stakes involved are of fundamental importance to the smaller of the adversaries. "Sanctuarization" of the national territory and nonparticipation in the forward battle--i.e., the battle waged outside of our borders--constituted the foundation of France's military doctrine until 1976.

In the spring of 1976, while continuing to adhere to its general principles, the French Government made considerable changes in the overall strategy. It was acknowledged that France could henceforth be affected by a conflict outside its borders and could participate in the fighting at the very outset. This would mean, as we know, fighting alongside German forces in defense of the FRG's borders. For that reason, we must have conventional forces--specifically the First Army--capable of effectively conducting such combat operations. This naturally implies a certain coordination of French procedures with NATO defense plans. The essential points of the Giscardian doctrine can be summarized as follows: possession of the most modern weapons, rejection of the "all-or-nothing" policy (hence the build-up of conventional forces), a variety of forces and materiel (including tactical nuclear weapons), the will to take part in battle (hence to have combat equipment and battle plans), and lastly the concept of the people's involvement (maintaining the draft).

#### Armed Forces and Public Opinion

France is still a country with a strong military tradition. Its army can be considered one of Europe's oldest military forces. Its creation as a regular force dates back to the statute of 1445. Yet it has not played a major political role in our history, even though episodes like the Dreyfus Affaire at the end of the 19th century did deeply divide public

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\*The reader is referred to the parliamentary debates on the 1977-1982 program, the statements by General Mery, armed forces chief of staff, and the president of the Republic's lecture at the Institute for Advanced National Defense Studies in June 1976.

opinion on such issues as ethics and moral conscience. Through crisis after crisis, our armed forces have seen difficult days. After the ordeals of lost colonial wars, from Dien Bien Phu to the OAS [Secret Army Organization], not to mention Tunisia and Morocco, our armed forces were hard hit by the backlash from the decolonization process begun in 1945 and completed in 1962. Unlike other European countries, France decolonized at the price of dramatic soul-searching crises. Its armed forces bore the brunt of the shock of these crises.

What is the situation in the armed forces today?

Even though increased funding for operations and maintenance is contained within an overall defense budget that is more or less unchanged, the improvement in morale is indisputable. Recruitment seems to pose no major problems. Enlistments are on the rise once again and elite units have no trouble recruiting personnel (the economic recession is a contributing factor).

Pay scales for noncommissioned officers seem to be more satisfactory. NCO's also receive excellent training. Service schools had fallen to a very low level, but they are improving and are reportedly even becoming better than required.

And, in addition, the mood of the times has changed. Agitation within the armed forces was almost unanimously denounced by all sectors of public opinion, including political parties and labor unions; especially since the extreme-leftist legend is facing by itself; memories of May 1968 are growing dim as echoes of the "big parade" die away.

And then, above all, there is inflation and the enormous increase in unemployment. Basic economic problems are again foremost in people's minds. The Soviet threat is being better and better perceived and restores a certain luster to the military profession.

This has produced heightened awareness of France's new vulnerability, an awareness reflecting a certain widespread uneasiness because of the economic crisis and the energy crisis.

#### An Uneasy France

In another connection, the gradual replacement of officers steeped in Gaullist ideology is prompting the younger generation of military personnel to question certain matters, such as nuclear deterrence. The debates in connection with the European [parliamentary] elections were indicative of this new climate. In those debates, Europe emerged as both a guarantee of peace among its members and a shield against external dangers and perils.



The press, discussion clubs, and the mass media are now showing an interest in defense issues, an interest that was totally nonexistent 4 or 5 years ago. The same is true of the universities.

At decision-making and planning levels, however, discussion on defense matters remain limited to a relatively restricted circle. And all defense powers remain largely concentrated in one person's hands, those of the president of the Republic, with the prime minister executing his policies. Parliament and the political parties play only a relatively small part in examining major defense options and monitoring their implementation. The options are determined within a very small and very exclusive group of technicians and military experts: the president's personal military staff, a few civilian specialists on African affairs, the chiefs of staff, etc.

Formulation of national defense options is, therefore, the military's business. Admittedly, for some time now, there has been an American-style influx--still modest, however--of civilian experts from the political community and the universities.

#### Paradox of Giscardism

The paradox of Giscardism is that it is actually more militaristic, more nationalistic, and more interventionist than Gaullism. Giscard d'Estaing's France is in a period of military and nationalistic assertiveness combined with an affirmed spirit of cooperation and rapprochement with its neighbors, mainly Chancellor Schmidt's Germany. But France is far from having the military means of implementing its policy or realizing its ambitions.

Unlike the defense policy of other countries, Great Britain in particular, our defense policy underwent a marked change in the 1960's, even though the decisions culminating in the atomic bomb actually date back to 1954. The rejection of Atlantic integration and the formation of an independent nuclear force led France to assume a multifarious military role.

That period marked the beginning of what might be described as a defense policy dominated by ambiguity, that is to say by the absence of clear-cut choices with regard to strategy as well as alliances. France refused to be a party to NATO's military commitments, while still continuing to retain, as a member of the Alliance, the benefits of the protection of the United States, protection which is still the cornerstone of French security despite the ups-and-downs of relations between the two countries. Moreover, France does not want to chose a defense posture based either on its nuclear force or, as in Germany, on its conventional forces.



This ambiguity also exists in France's military organizational structures. After having long been the subject of maximum government attention and concern, the nuclear forces now represent only 18.2 percent of the defense budget, and will seemingly stabilize at this level in the future, whereas the 1977-1982 military program grants privileged status to rebuilding the conventional forces and their weaponry. The same ambiguity can be seen in the choice between a conscript army with costly personnel numerically in excess of requirements, and a modern, well-equipped, and well-trained conventional army.

#### Increase the Defense Effort

One of the very first decisions should deal with the size of the defense budget. Is it conceivable to increase that budget, as was done in Great Britain, to 5 percent of GNP, or at least move toward that percentage? Some members of the parliamentary majority have already complained that the military program is seemingly not being followed. Nevertheless, a corrective effort is being made and the chief of state has said he is determined to continue this effort for several more years. Will the effort be economically supportable? If we look at the outlays required in France to modernize the telephone system--120 billion francs over a 5-year period--or for the nuclear program--30 billion francs for the same period--we note that these sums have apparently not caused any serious disturbances. We can conclude, therefore, that it would be possible to further increase the armed forces budget without any damage to our industrial structures.

It is likely, moreover, that in the long run, the relative burden of certain categories of government expenditures could be lightened. Priority is already no longer being given to the superhighway system. The priority for telecommunications will probably be gradually lowered as equipment deficiencies are corrected. The declining birth rate will lighten the Ministry of National Education's burden. The financial sacrifices made for housing are nearing an end. It is conceivable, therefore, that the strain on available resources could eventually be eased somewhat. In the immediate future, however, our country will have no choice but to be parsimonious in allocating its resources, because of the economic slump, the mounting cost of social welfare payments, particularly unemployment benefits (44 billion francs in 1980), along with a precarious trade balance and accelerating inflation.

In short, while the ceiling of France's defense budget can actually be raised, this will not be done to a sufficiently large extent, barring dramatic circumstances that are unforeseeable at this time. All the same, Giscard d'Estaing did acknowledge that by 1980 France could no longer provide for its security with its present means.\* Those

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\*It should be noted, in this connection, that French arms limitation proposals are considered not only a means of obtaining a certain degree of additional security, but also a way of getting out of a defense effort that would otherwise be difficult to avoid.

improvements now being made should, nevertheless, help narrow somewhat the gap between resources and goals. But it would undoubtedly be unduly optimistic to expect more than that.

#### Outmoded Options

It is true, of course, that young military officers are sensitive to the somewhat unrealistic aspect of the options chosen. The equanimity of preceding generations was based on a triple assumption, namely the absence of any serious threat because such a threat was in nobody's interest, the permanence of American protection, and lastly, the deterrent force. This triple assurance is now being questioned in some military circles where there are doubts about American protection which appears to be less certain than in the past. Such misgivings are intensified by the real or assumed weakness of the Carter administration, by the abandonment of allies in Iran, Formosa, and perhaps some day in Israel, and by Cuban and Soviet interventions in Africa, and now in Afghanistan.

It is obvious to everyone that war is now a possibility, particularly with the prospect of a change in the Soviet collective leadership in the not too distant future. And there is speculation about the real value of the French nuclear strike force whose only component deemed effective is the nuclear submarine fleet. An era of questions and doubts has thus succeeded an era of dogmatic faith.

But the now clearly perceived Soviet danger is still more a preoccupation than a key factor. It is striking to note that the government is doing its utmost to deal tactfully with its powerful Eastern neighbors in the tradition of the good relations established by De Gaulle. This most careful approach was evident in connection with the Afghanistan crisis. Aware of not being in a position of strength, France treats its adversaries with "kid gloves." It would no doubt take a grave crisis in Berlin or Yugoslavia to alter "the understanding" the French Government has traditionally displayed toward the USSR.

#### In Africa

Lastly, it should be noted that, on a geographical basis, French policy will continue to place very special emphasis on Africa viewed as an unstable continent closely affecting our security because of its geographical proximity, the presence there of 260,000 French nationals, and because, above all, our oil and raw materials shipping route lies off the African coast. We must also provide for possible threats to overseas countries linked to us by common interests. In addition to military assistance, France has made provision for the possibility of committing its troops in direct support of countries with which it has defense agreements, namely Senegal, Ivory Coast, Gabon, and Djibouti. France will also remain active in the Indian Ocean from bases on Reunion, in spite of Malagasy susceptibilities.

## Triad

The choice of organizational structures and weapon systems seems to be dictated much more by cost-effectiveness constraints than by any concern for revising or clarifying strategic choices.

It will be noted to what point, once again, the size of our resources shapes French doctrine, and not vice versa. In other words, regardless of doctrinal ambitions, in the final analysis it is doctrine that is adapted to resources and not resources that are adapted to doctrine.

Up to 1990, French security will be insured by the triad of air, ground, and submarine forces. For the post-1990 period, the retirement of the strategic bombers will leave 2 components with the possibility, not yet definite, of developing a third type of complementary weapon system. The Albion Plateau missiles will be retained until 1995, or even until the year 2000. The nuclear submarines--considered undetectable at this time--will most likely remain in service until the same date and will constitute the backbone of our deterrent force. A sixth nuclear submarine, L'Inflexible, is to be launched in 1985, the first to be armed with the multiple-warhead M-4 missile, a weapon superior to the single-warhead M-20 missile carried by submarines currently in service. This sixth nuclear submarine is actually a transitional submarine incorporating improvements over the present technology, but without thereby including any radically new technology. Current research is focused on increasing the range of submarines so that they can fire from positions near our coast, where the density of national defense means is the highest. Research is also being conducted, naturally, on making our submarines quieter.

Unlike Great Britain, France will not limit itself solely to the submarine component. A new generation of semimobile missiles are to become operational in 1985. These mobile single-warhead ballistic missiles are mounted on wheeled semitrailers and have a range of several thousand kilometers. On the other hand, France is not very interested in the slow and vulnerable cruise missiles. They are considered too costly. For example, it would take 2,000 to 3,000 cruise missiles to obtain the necessary saturation effect. A new element in our future nuclear force will be the ASMP (air-to-surface medium-range missile). With a range of some 100 kilometers and a 150-kiloton nuclear warhead, the ASMP is designed for the Mirage 2000, a low-altitude penetration aircraft. It also could be launched from the Mirage 4 nuclear bomber which would thus find a new role for itself after 1985 when its strategic bomber role will come to an end.

## Tactical Missiles

The 150 Pluton missiles serve a dual purpose. They serve as the final warning before resorting to strategic weapons. And from a military

efficiency standpoint, they make it possible to obtain a 24 to 48 hour "pause or break." This weapon is considered to be an extension of the strategic arsenal and not the atomic extension of conventional weapons. The problem with the Pluton is to increase its range from 150 to 450 kilometers so that it can strike at enemy territory from our territory. In other words, the missile has to fire farther and from positions farther back. Such increased range considerably enhances the credibility of this tactical weapon which is currently still based in our country. Lastly, even though no final decision has yet been made, economic reasons should dissuade France from producing the tactical enhanced radiation weapon--the neutron bomb--judged to be unnecessary for deterrence. Research is continuing, however, on miniaturization and hardening of nuclear warheads.

### Nuclear Submarines

The first French attack submarine, the Provence, was launched recently. The number of such submarines is expected to increase to 5 by 1985, compared to 12 for Great Britain, 93 for the United States, and 86 for the USSR. This version is a medium-performance submarine. Cost constraints were a factor here also. The French Navy's total tonnage is 350,000 tons at the present time. In 10 years, it will be only 140,000 tons, a change that will have 2 immediate consequences. First, it will no longer be possible to maintain an important naval presence in the North Sea and the Mediterranean at the same time. Secondly, protection of the departures and arrivals of our nuclear submarines is liable to be less satisfactory. Nevertheless, the government seems to accept the drop in the navy's tonnage, despite a slight increase in that service's share of the military program. Pending establishment of a master plan for the period 1990-2000, a palliative will be sought by concentrating French naval power on a regional level--the Mediterranean and the Indian Ocean--and also by the acceptance of increased cooperation with allied navies.

### Tanks

The French Army has chosen--again for reasons of economy--the AMX-30B2 tank, an improved version of the AMX-30 placed in service in 1966. A total of 1,060 AMX-30's have been delivered. To have a tank capable of firing on the move against mobile targets--as the German Leopard 2 already does--our army will have to wait until 1990 when the EPC (main battle tank) becomes deliverable. Our technological choices are thus based on efforts to improve the performance of existing equipment within the limits of increasingly tighter budgets.

As for our external intervention forces, their operation in Zaire brought some glaring deficiencies to light. These forces are under strength, their equipment is inadequate, and there are shortcomings in



their air transport support. These forces are to be equipped with high-quality light weapons, including particularly the new FAMAS 5.56-mm assault rifle, designated the Clairon. Deployments in Lebanon, Djibouti, Chad, and Zaire absorbed a large part of the intervention forces currently available to France. Yet for political reasons, it is virtually impossible to dispatch forces outside the country unless they consist exclusively of volunteers. An effort will be made, therefore, to improve the quality of equipment, augment logistical support, particularly the airlift capability, and constitute regiments made up of regular (professional) personnel.

#### Armed Forces Have 500,000 Men

In 1979, our armed forces had a personnel strength of slightly more than 500,000--compared with 600,000 during the Algerian War--including 330,000 in the army, 70,000 in the navy, and 106,000 in the air force. This total figure will drop to 480,000 this year, but remain at a relatively high level because of the retention of compulsory military service which furnishes 290,000 men (another 120,000 draft-age men receive exemptions). Suggested reforms of the draft system offer no satisfactory solution. Reducing the draftee strength of the armed forces to 150,000 would mean granting exemptions to many of those men who are currently declared fit for military service. Such exemptions would seem unfair. If, as suggested, the term of active service were reduced to 6 months this would be insufficient time to train men. In addition, any reduction in the length of service would increase costs, especially because of the resulting increased wear and tear on equipment. Consequently, the government is, for the moment, moving toward a 1-year term of service for draftees and a higher proportion of exemptions.

France's dramatic national defense situation is the result of having failed to make a choice between contradictory objectives. In fact, it had to choose either, because of limited forces and equipment, to confine itself to one specific objective, within the framework of an alliance for example, or to substantially increase its overall defense budget to a level commensurate with its goals and ambitions. This latter choice would have required raising defense expenditures to 5 or 6 percent of GNP.

Because it failed to accept making a choice, France now has a heterogeneous military force incapable, in actual practice, of properly performing any one of its missions. The most conspicuous result of their failure to make a choice is the flagrant quantitative inadequacy of conventional equipment, a situation which, despite a few brilliant technological achievements, deprives the military instrument of the greater part of its operational combat capabilities.

In 1974, France had 5 years to prepare itself for the requirements of the 1980's. France did not profitably use this time, or this reprieve.

The consequences thereof can be serious in that the gradual fading of the American presence since the early 1970's, concurrently with the build-up of the Soviet armed forces, leaves France and Europe in a perilous situation. In the absence of a counterweight to Soviet strength, political and diplomatic pressures of all kind are liable to turn that highly extolled virtue of national independence into the disguised camouflage of national destruction.

Barring a sudden breakthrough, the most likely national defense prospects open to France are, therefore, those related to maintenance of the highly ambiguous status quo. France has long lived under the illusion that words take precedence over actions and right over might. It has been ensconced in this convenient fiction for so many years that we can only hope that fate will act kindly and not brusquely oust our country from that fiction some day.

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## KING ACCEPTS MARTENS III GOVERNMENT RESIGNATION

## Martens Resigns, Does It Again

Brussels LE SOIR in French 8 Oct 80 p 1

[Unattributed Article: "Resignation Accepted, Martens Forms Next Cabinet"]

[Text] Mr Martens is no longer the head of the outgoing administration; he is already the man who will put the next one together. Tuesday morning, as a matter of fact, the King accepted the resignation of the Martens III cabinet and immediately charged the former prime minister with putting a new team together. At 1000, Mr Martens was back at 16 Loi Street where he discussed the situation with his chief aides.

The latest effort undertaken Monday night by the resigning prime minister, to reverse the centrifugal movement which had developed within his team for the past several days, did not lead anywhere.

Nevertheless, in an attempt, upon the request of the King, to find a consensus among the six partners, the prime minister on Monday had given them, for their perusal, an 13-page document--could that have been a sign--presenting his proposals aimed at rebalancing public finances in three parts, properly revised.

But the liberals thought that, in spite of the dispersion of amounts and the breakdown of the sums among several items, these proposals remained the same which they thought they had to reject earlier. Eight hours of deliberations among the majority party chairmen and the ministers of the restricted cabinet thus ended in failure.

Around midnight--the dividing line between Monday and Tuesday--the prime minister announced that he was going to make a new report to the King. He did that early in the morning, with the results we are all familiar with.

At the end of the Monday meeting, the Liberals and the Socialists each came out with a different version of the reasons for the failure.

PRL [Party of Liberty and Walloon Reform] chairman Jean Gol, flanked by Messrs Willy De Clercq, chairman of the PVV [Party of Liberty and Progress], and Herman De Croo, PTT [Post Office, Telegraph, and Telephone] minister, made the following statement: "What has just happened is grave. From the opening of the meeting, we realized that the Socialists wanted to attend that meeting only to see whether the liberals were ready to go along with what the Socialists and the Social-Christians had decided.

"They submitted to us, in a more diluted fashion and in a different format, those proposals which our ministers had already rejected and no real effort of goodwill to get out of the crisis was made by the Socialists.

"At the end of the meeting, there was a proposal for conciliation: it consisted of reducing the burden on the PME [Small and Medium Enterprises] by a total amount of 3 billion and the Socialists refused," added Mr Gol, estimating that one could now say that "there are political parties in this country which are trembling with fear before the labor union organization."

"As far as we are concerned, we want to continue to govern and we are ready to negotiate, but we want to do that in order to accomplish something really meaningful. We are not wedded to those ministerial portfolios but we want instead to extricate the country from the crisis. For the time being we feel that the negotiations have failed."

Mr De Clercq emphasized the fact that, while the liberals appeared isolated last week, they seemed to be less so today since the proposal in favor of the PME was rejected by the Socialists. The latter caused the discussion to fail, he said, adding that "this is a good thing because, in the tragic situation we find ourselves now, a political crisis must absolutely be avoided."

"We entered this administration in order to proceed to a restoration of public finances and social security and if we do not have an opportunity to do so, then we see no need for staying in," Mr De Clercq concluded.

#### Political Parties Express Positions

Brussels LE SOIR in French 8 Oct 80 p 2

[Text] The Analysis of the Socialists

On the Socialists side, of course, they see things entirely differently. Messrs Andre Cools, PS [Socialist Party] chairman, and Guy Spitaels, vice premier, as well as Messrs Karel van Miert, SP [Socialist Party] chairman, and Willy Claes, minister of economic affairs, underscored the fact that their political family had always accepted the proposals of the prime minister whereas the liberals--after having accepted the budget decisions and the proposals made to the social conversation partners--absolutely tried to amend them.

"It is certainly proper for the prime minister to draw the conclusions from this meeting and to report to the King," Mr Spitaels emphasized. And Mr Cools added: "I have no advice to give to the King but, since the Liberals are so handsome and strong, why should he not assign them the responsibility of forming a cabinet?"

Mr Cools above all stressed the fact that the Socialists did not reject the last proposal involving special aid to the PME but they demanded that the effects of this aid, especially in terms of employment, be removed from the chapter on "economies." "But we then ran into the 'symbolism of the Liberal family' which meant that in any case we would be going beyond the 15 billions in savings," Mr Cools declared.

"We were not against adaptations, but not in a unique sense, and if new elements of prescriptions come up, it would be normal to reduce the savings," the PS chairman emphasized. And then he proclaimed: "It is high time for us to put an end to that legend according to which the Socialists are against the PME. We demonstrated the contrary, especially with our bill on companies made up of one individual only."

"We must as quickly as possible get out of this crisis. The country no longer understands anything of what goes on and does not have the means for affording renegotiation," Mr Cools indicated further; he said that he was ready to do what was necessary to cut the crisis short.

SP chairman Karel van Miert expressed regret that the Liberals seemed to want a confrontation with the labor union organizations. "Making the others accept their viewpoint, as the Liberal family did, is not rendering a service to the country. There is no other way to get out of this crisis except to try to achieve the broadest possible concensus, said Mr Van Miert.

For Mr Claes this was somehow a "fixed idea" on the part of the Liberals, that is, to exceed the 15 billions in savings.

And Mr Cools in conclusion recalled that "to achieve the necessary restoration, we have to try to convince the largest possible number of persons through coordination--which includes not only the labor unions but also the employers, the middle classes, and the farmers."

#### Social-Christian Party Wants 4-Year Cabinet

The French-speaking Social-Christians waited until Tuesday noon to make their reactions known. Mr Vanden Boeynants, their chairman, in particular had this to say: "The PSC [Social-Christian Party] will respond affirmatively to the cabinet-maker, as it were, but it felt that a certain number of things have to be changed seriously. In any case we want to make sure that priority examination will be made of a bill that is designed to permit the stability of government action. We must in the future have a government based on legislature. The PSC will demand that the cabinet-builder

clearly spell out an operating method for his cabinet, giving him more effectiveness in work and more clarity in terms of responsibilities. We will not accept responsibility for government power," Mr Vanden Boeynants said, "except to the extent that his program will make it possible to pursue a policy which we consider really worthwhile."

In response to a question, the PSC chairman further said that he had been very attentive to the statement by Mrs Spaak who said that she was ready to support the administration from the outside. "It is important to see that an opposition party can envisage support for a reasonable and balanced solution. But," he added, "our major worries involve the economic, social, and budget problems."

The FDF [Francophone Democratic Front] chairman was not the only one to think in terms of supporting the administration from the outside. On Tuesday afternoon, PRL chairman Gol asserted that his party was ready to participate in the completion of the institutional reform which was undertaken and, within the framework of an agreement between parties, to participate in a definitive reform acceptable to Brussels.

What Now?

The most likely solution is the establishment of a Socialist-Social-Christian bipartite cabinet. With a possible Martens IV administration we would get back to the Martens II formula, that is to say, the team that existed at the moment when the FDF ministers were persuaded to leave their colleagues in the tripartite cabinet.

It is probably this orientation which persuaded Mrs Antoinette Spaak, chairperson of the FDF, to announce that her party was ready to support, from the outside, an administration that would pursue a policy acceptable to the FDF. In stating furthermore that "every party is always a candidate for power," she obviously left a door open for the future.

At any rate, one cannot really see how Mr Martens could think of renegotiating a new tripartite cabinet. Everybody realizes that one has to move fast. The leaders of the parties of the outgoing majority are convinced of that and we note that the King, without hesitation, appointed the man who is to put the cabinet together. And we also note that the new cabinet-maker, as it were, is the prime minister who has just resigned.

The Socialists asserted on several occasions that they had accepted the prime minister's proposal, just like the Social-Christians and negotiations between the two parties involved would thus seem to be reduced to the indispensable minimum.

The bipartite set up involving the Liberals and the Social-Christians cannot be envisaged for several reasons. Disagreement on the proposals of Mr Martens are the first reason here. The fact that such an alliance does

not make it possible to have a majority either in the French community or in the Walloon regional council is another reason. And then there is also the fear of social movements similar to those of 1960-1961.

But these are suppositions which are made behind the stage scenery of politics. Mr Wilfried Martens holds the cards and knows what aces he has to beat. If negotiations between the Socialists and the Social-Christians should fail, something which cannot be ruled out a priori, we will not escape new elections.

#### First Conferences By Cabinet-Maker

Mr Wilfried Martens during the morning received the presidents of the Chamber and the Senate as well as the chairmen of the Flemish Council and the Council of the French Community.

In the afternoon, Mr Martens was to receive, in succession, Messrs Leo Tindemans, chairman of the CVP [Social-Christian Party]; Paul Vanden Boeynants, chairman of the PSC; Karel van Miert, chairman of the SP; and Andre Coole, chairman of the PS.

#### PRL: "Our Position is Known"

Three party bureaus met on Monday: the PS, the PRL, and the FDF. The chairmen of the first two of these political formations declared that, in signing the prime minister's demand, they would make no declaration relative to the political situation.

PRL Chairman Jean Gol nevertheless did declare that his bureau had approved the line pursued by the members of the government and by the party chairmen and he gave them a mandate to pursue the contacts. He added: "As far as our position is concerned, it is known and it is no longer necessary to reaffirm it. For our part, we want Mr Martens to succeed and resolve the crisis."

#### FDF: Ready to Support a Government From the Outside

"Every political party is a candidate for power," Mrs Antoinette Spaak emphasized Monday noon at the end of the meeting of the permanent bureau of the FDF; but her party is also ready to support, from the outside, an administration whose community, economic, and social program would be acceptable in its eyes and would be carried out rapidly.

In its communique, the FDF denounced the powerlessness of a formula combining the six traditional parties. It noted the inability of the government to resolve the regionalization of Brussels and the failure to implement the constitution. Only the association of the representative forces of their region can give the institutions the dynamism and the hope which the country needs. The only serious hope which for some time now has



inspired the country's political life is the Egmont agreement--sabotaged by a majority party whose responsibility for the crisis will someday appear particularly overwhelming, they are still saying in the PDP.

For the Brussels Federalist Party, real patriotism consists in clearly seeing the country's regional evolution and courageously drawing the necessary conclusions from that.

#### Bipartite Government Wanted

Brussels LE SOLR in French 9 Oct 80 pp 1, 2

[Article by G. De.: "Martens Invites the 'Gang of Four' to Fill the Power Vacuum Quickly"]

[Text] Mr Martens, the cabinet-maker, is going to move fast. The Socialists, who are candidates for this two-party set up, are ready to go along with him. The CVP would of course also like to tag along because it wants to renegotiate a maximum of cases before committing itself to a cabinet which some people already have labeled as "labor." As for the PSC, it does not wish to confuse "speed" with "haste," as noted by its chairman, Mr Vanden Boeynants. So, haste will be made slowly!

Can all of this give us a cabinet? We will know more this Wednesday evening because starting at 1700, the Social-Christian and Socialist families--that is to say, a total of four parties--will gather around Mr Martens to try to form a new government. But negotiations between the partners, who seemed to have gotten together against the Liberal partner during the agony of the tripartite cabinet, could take longer than some people think.

In other words, a faceoff before perhaps coming up with a Roman-style red coalition. "Speed will be an element in the credibility of the next," said PS chairman Andre Cools on Tuesday evening. But the CVP turned out to be rather cautious: it does not manifestly wish to be swept into an adventure from which the Liberals, pushed back into the opposition, would, sooner or later, derive all of the election benefits. "We are behind the cabinet-maker," said Leo Tindemans. That is the least of it because that cabinet-builder is one of the members of his party. However, the CVP has set up a group of conditions: (1) there is no question of negotiating on the basis of the latest proposals of Mr Martens only (those which were made to try to save the three-party cabinet); (2) it is necessary to get together on an economic recovery program (a priority demand of the Liberals!) and on a "convinced" family policy (a favorite issue of the Social-Christians).

On the Socialist side, they say that they are against renegotiations and they preach urgency. That would only help prove that the latest Martens proposals suit the PS and the SP--hence, obviously, an increased feeling of distrust on the part of the CVP.



At the microphone of RTBF [French-Speaking Belgian Radio-Television?] on Wednesday morning, PSC chairman Paul Vanden Boeynants found the formula which perhaps will satisfy everybody: "this will not be a Labor government but a government of progress, a social government but not a Socialist government." They still have to get together on a program which is liable to tally with one such definition, for both sides.

#### Leo Tindemans Moving With Feet of Lead

But it still so happens that the CVP does not seem in any hurry to arrive at a quick agreement between the Social-Christians and the Socialists. Mr Martens was perfectly aware of that. To the question as to whether he would be able to come up with a team and a program next Tuesday, the day parliament meets again, the cabinet-maker confined himself to replying: "That would be ideal but we should not count on it too much."

The CVP thus seems tempted to make the Socialists pay the big bill for the jettisoning of the Liberals. One cannot rule out the possibility, under these conditions, that a renegotiation of the administration program might come about during the next several hours. For the moment, the Socialists reject this eventuality, thinking that the credibility of the political personnel is at stake. They added that the departure of the Liberals must be the occasion for a serious reduction in the number of ministers and secretaries of state.

#### And What About the Two-Thirds?

If Mr Martens were to succeed in his attempt to reconstitute a two-party cabinet, the question of the special majorities would once again come up.

Both in the Chamber and in the Senate, the Socialists and Social-Christians have a sufficiently large majority to run the country. But everything appears in a different light the moment it comes to tackling community problems, such as the revision of the constitution and the settlement of the Brussels dispute which should make it possible to complete the government reform.

Indeed, a red-Roman coalition is just about two votes short of the two-thirds majority which would enable it to act in the institutional field--at least in the Chamber.

This handicap did not go unnoticed in the eyes of the other parties. The Liberals, the FDF, and VU [People's Union] made it known that they were ready to offer their support while remaining in the opposition. It obviously remains to figure out what conditions will be advanced by the parliamentary minority parties and if those conditions could be accepted by all majority formations.

In short, Mr Martens' chances of success seem rather great--but only in short-range terms.

#### The Liberals and Government Reform

The chairmen of the PRL and the PVV, Mr Jean Gol and Mr Willy De Clercq together held a press conference on Tuesday. The chairmen defended themselves against the charge of having caused the crisis. They stressed the fact that the Liberals and the Social-Christians had accepted the proposal of reducing the burden on the PME which represented something like 3 billion francs. "This proposal was rejected by the Socialists who thus decided to break with the Liberals," said Mr Gol.

As for the Social-Christians, the PRL chairman felt that they are playing a game which consists "of not cutting themselves off from the Liberals without giving the impression of falling in with the Socialists, which they nevertheless are going to do during the next several days."

Messrs Gol and De Clercq added: "There is no crisis because, over these past three days of tension, the Social-Christians and the Socialists were always in agreement. Within 24 hours, Mr Martens should be able to form a cabinet."

The PVV chairman emphasized the fact that the Liberals had always defended the common viewpoints in this crisis. For the Liberal chairmen, the deadlock came on the issue of social security. This deadlock, he added, comes from the links which the other two families have with the labor union organizations.

The chairmen thought that one could expect three consequences from their departure from the administration: a resurgence of community problems, an increase in taxes, and a difficult social climate.

#### SP: A Cabinet As Fast As Possible and Brussels Later

"A new administration must be formed as quickly as possible," declared Mr Van Miert at the end of the meeting of the bureau of Flemish Socialists. "It is possible to arrive at an accord during the days to come," he added, "if Mr Martens sticks to the governmental agreement and to the last propositions which he presented and which were accepted by the Socialists and the Social-Christians. A new cabinet should no longer have 36 ministers. Savings must be made on that level also," he continued. "If a new administration is constituted on this basis, it will not be necessary to summon a congress of our party."

A Socialist-Social-Christian majority would no longer have the two-thirds majority in parliament required to settle the Brussels problem. "Offers of outside support have been made," replied Mr Van Miert. "But for us, at any rate, this is not a priority problem. Its solution can wait for

several months. The administration must concern itself with economic and social problems above all. That is the big priority."

#### CVP Wants to Renegotiate Everything

The CVP has dissociated itself from the Socialist position. In its opinion, it is necessary "fundamentally" to renegotiate between the partners of a future two-party administration. "This is not a question," said Mr Tindemans, "of being content with the administration accord of the defunct three-party cabinet and the last positions of Mr Martens. Obviously, the CVP wants to protect itself against future liberal attacks."

At the end of his party's bureau meeting, Chairman Leo Tindemans expressed regret over the failure of the three-party cabinet. The CVP particularly deplores the fact that the administration fell on "a very interesting proposition to improve the job situation." Mr Tindemans emphasized that the latest proposals from Mr Martens had been accepted by the Liberals and the Social-Christians but had been rejected by the Socialists.

The CVP is ready to discuss the formation of a two-party cabinet with the Socialists. But it has its own conditions to advance: "It is necessary to spell out an industrial rescue plan, an up-to-date and dynamic economic program, as well as a convincing political family." The CVP could participate in a cabinet only if such a cabinet were to commit itself to carrying out such a program.

It will not be satisfied with the latest administration accord and the latest propositions of Mr Martens; it wants a profound renegotiation. The future participation of the Flemish Social-Christians will be tied--Mr Tindemans announced--to the holding of a congress. Here again, the CVP dissociates itself from the positions adopted by the Socialist who want a cabinet as rapidly as possible.

The CVP meeting seems to have been difficult. The party rank and file was quite reluctant to plunge into a "labor" two-party cabinet. The memory of the Lefevre-Spaak experience was still fresh in everybody's mind. After that left-wing administration, the Social-Christians in effect suffered a bitter election defeat and lost 19 seats. The CVP would like to include in the next administration program some points from its own program entitled "Voorspoed door moed" [prosperity through courage]. It would also like to make sure that this next cabinet can last 2 years. As far as it was concerned, it was said in the hallways, elections in a few months would be even worse than elections immediately. But the main purpose of the CVP seems to be not to make things too nice and easy for the Socialists. The CVP is afraid of a Liberal Party in the opposition which could attack its electorate.

On the Brussels problem, Mr Tindemans stressed that the members of parliament were free to propose external support but that there was no question of accepting the demands of parties which do not participate in future negotiations.

## PS Wants Quick Resolution of Crisis

"The bureau has charged me with saying that we were in agreement to participate in a four-party cabinet," announced PS chairman Andre Cools at the end of his party's bureau meeting. He furthermore stressed the urgency of resolving the government crisis. "The party is aware of the disarray of public opinion and the need for a restoration of public finances. It is aware of the urgency to come up with a solution to the job problem and it feels that it is necessary to defend democracy at a moment when so many perils emerge."

"Speed will be one element in the credibility of the next cabinet," said Mr Cools, who also hopes that "the next national government will be re-structured and streamlined."

"I must repeat that we did not want this crisis," the PS chairman said further. "We were in agreement on Thursday, Friday, Saturday, Sunday, and Monday and I am only talking of the last few days here."

Mr Cools repeated that he was "opposed to renegotiations." There is a minimum of agreement to be worked out but this would be a nice challenge to be picked up by Mr Martens if he were to come out with his new cabinet on Tuesday, as parliament reconvenes."

Mr Cools also recalled that the PS was loyal to the principle which it has always defended: "One must not make the disadvantaged and those who live from their work pay for this crisis" and "as far as the Socialists are concerned, social planning coordination is not a lineup with labor union positions but is necessary so that the economic and social groups present in this coordination effort may really be consulted and so that the largest common denominator may come out of all this."

Questioned as to the possible acceptance of the Socialists when it comes to taking, as point of departure, the negotiations on the text proposed Monday, Mr Cools said that he was in agreement, "if this is a matter of gaining time because we do not want to become stuck in negotiations that drag on. If someone were to ask us to start from scratch, I would regret that bitterly."

In response to the question as to whether a passage on Brussels should be included in the government accord, the PS chairman thought that "on the community level, the government should propose to parliament a discussion of the problem, especially since it no longer has the benefit of the two-thirds majority."



## Parties Want Quick Solution

Brussels LE SOIR in French 11 Oct 80 p 2

[Article by J.v.S.: "Negotiators Meeting With Mr Martens Hope to be Able to Finish in One Week"]

[Text] Looking at the point and counterpoint which keep succeeding each other before the eyes of the negotiators, it seems that somebody is getting a rather musical cabinet ready for us. The cabinet-maker in any case is trying to get the violins and the pianos to play together. In the basic score, they have now arrived at the passage relative to social-economic problems, comprising several measures concerning the PME. Although nobody for the time being is coming out with any "klinkers," the negotiators hope to finish the first reading of that section by this coming Friday evening. On Saturday they will resume the examination of the other problems. The party chairmen could finish the whole thing within a week and that would enable the congresses of the four parties involved in these negotiations to have their say during the next weekend. The cabinet-builder however will have to take into account--in his work program--the return of both houses of parliament on Tuesday and the session of the cultural councils on Wednesday. Of course, the interval of one week might look a little bit optimistic when one remembers that the Social-Christians put points on the agenda not contained in the compromise concluded by the defunct three-party cabinet.

The representatives of the Social-Christian and Socialist families embarked upon the road of a fundamental renegotiation of the government action program. Throughout the entire morning of Thursday, the participants were content with formulating various observations of a general nature. It was not until the afternoon that conversations began really to get to the bottom of things.

Around 1800, the cabinet-maker's press advisor declared that the Social-Christians had demanded guarantees as to the execution of that which had been agreed upon by the earlier majority in the matter of education.

We recall that the cabinet on 26 September arrived at a consensus relative to the rationalization and programming of secondary education, the creation of a pluralist board of education, the start of labor union consultation, dealing with the standards for the creation, maintenance, and splitting of classes, the merger of the establishments and jobs of secondary education personnel. This means that the Social-Christian negotiators achieved the reopening of the entire school case.

As for the rest, the Social-Christian and Socialist representatives continued the examination of the social and economic recovery plan submitted



by the cabinet-maker, Wilfried Martens. Negotiations are far from over. As a matter of fact, numerous observations were made by the various delegations. At the end of the meeting, around 2030, the negotiators had adopted a less pessimistic tone than the night before. The cabinet-maker's press aide then declared: "So far, the negotiators have examined, in a first reading, the first chapters of the economic and social recovery plan, that is to say, the budget measures and employment policy. The participants in the meeting on Lambertmont Street also discussed the chapter pertaining to small and medium enterprises."

As we announced in earlier editions, it seemed obvious that negotiations between the Socialists and the Social-Christians run the risk of lasting much longer than anticipated. The departure of the liberal family did not simplify the tumultuous relations between the Social-Christian and Socialist families.

The PSC and the CVP manifestly want to be forearmed against the effects of the campaign which the Liberals will not fail to conduct after their recent eviction from power. The Socialists for their part do not intend--according to the words of chairman Andre Cools--"to replace the Liberal dross with Social-Christian dross."

In the Socialist camp, the climate however was less pessimistic than on Wednesday. Messrs Cools and Van Miert of course thought that their conversation partners had placed the bar rather high but that the negotiations were developed on more concrete bases than the day before. We thus learned that the negotiators had agreed to the broad outlines of Mr Martens' economic and social recovery plan and that everything would be done to permit the future majority to draft a procedure as to the settlement of the Brussels problem and the revision of the constitutional articles making it possible to perfect the government reform.

The participants also decided again to discuss the rent control law which freezes rents until 31 December 1980, the problem of racism and xenophobia, as well as the question of the Escaut-Meuse treaties.

In short, the Social-Christians and the Socialists continue to look upon each other as if they were painted pottery dogs. But the fact remains nevertheless that their relations are relaxed. Their desire is to lose as little time as possible and that applies to both of them. But the explosive character of problems returned for discussion leads us to believe that the negotiations will be lengthy. The departure of the Liberals manifestly helped increase the distrust between the Socialists and the Social-Christians. The conservative wing of the PS and the CVP is subjected to heavy pressure from employer organizations which are afraid of a link-up between the PS and the SP, on the one hand, and the Christian labor union organizations, on the other hand. Several Socialist leaders, for their part, are afraid that the Social-Christians might benefit from

the departure of the Liberals in order to bend the administration program into a direction more favorable to the interests of the employers.

All participants in the negotiations on Lambermont Street were of the opinion on Thursday night that the talks had progressed. According to Mr Van Miert, the political parties present in the negotiations could even hold their congresses this coming 18 and 19 October.

Mr Vanden Boeynants talked along the same lines and stated that nobody seems determined to lose any more time. Mr. Andre Cools seemed more relaxed than the night before and said that viewpoints were getting closer together. As for Mr Tindemans, he confined himself to stressing that the discussion took place in a relaxed atmosphere.

5058

CSO: 3100

## EXPORTS INCREASE AS DEFICIT SLOWS

Nicosia BOZKURT in Turkish 24 Sep 80 pp 1,4

/Text/ Nicosia (CYPRUS NEWS AGENCY) -- Important and positive developments have been noted in the TFSC /Turkish Federated State of Cyprus/'s foreign trade in the first 6 months of this year in comparison with previous years; trade volume registered a 165.6 percent increase.

There have been significant increases in TFSC exports this year. Exports of 471.5 million Turkish liras from January to June, 1978, rose to 662.7 million Turkish liras in the same period of 1979 and to 2,316.7 million Turkish liras in the first 6 months of 1980, an increase of 349.6 percent over 1978.

According to import-export statistics from the TFSC Trade, Industry and Cooperatives Ministry, imports in the January-June period of 1978 reached 978.9 million Turkish liras, while imports in the same period of 1979 and 1980 were 1,366.8 million and 3,073.9 million Turkish liras respectively.

In the first 6 months of 1978, the foreign trade deficit was 507.4 million Turkish liras and rose by 38.8 percent to 704.1 Turkish liras in the same period of 1979. However, a steady slow-down was seen in the January-June period of 1980 and while the foreign trade deficit rose by 38.8 percent in 1979, it was 757.2 million Turkish liras in 1980, rising by only 7.5 percent.

## Foreign Trade Volume

The foreign trade volume which was 1,450.4 million Turkish liras in the January-June period of 1978 rose to 2,029.5 million Turkish liras in the same period of 1979, a 39.9 percent increase over 1978. The 1980 rate of increase in the foreign trade volume in the January-June period is even higher in comparison with 1979.

The foreign trade volume, growing by 39.9 percent in 1979 as compared to 1978, has shown a 165.6 percent increase in 1980 as compared to the same period of 1979, growing from 2,029.5 million Turkish liras to 5,390.6 million Turkish liras.

### Imports with Waivers Have Large Share

Imports with waivers had a large share of the TFSC's imports in the first 6 months of this year.

Total imports of 1,366.8 million Turkish liras in the first 6-month period of 1979 consisted of 591.4 million Turkish liras imported from Turkey for Turkish liras, 551.5 million Turkish liras imported with waivers and 223.9 million Turkish liras in foreign exchange.

Total imports of 3,073.9 million Turkish liras in the same period of 1980, however, consisted of 1,499.0 million Turkish liras imported from Turkey for Turkish liras, 1,060.9 million Turkish liras in imports with waivers and 514.07 million Turkish liras for foreign exchange.

According to these data, total imports for January-June 1979 came out at 43.3 percent made for Turkish liras, 40.3 percent with waivers and 16.4 percent for foreign exchange. Imports by type of payment for the same period of 1980 were 48.8 percent, 34.5 percent and 16.7 percent respectively. While the share of total imports of imports for foreign exchange remained at the 16 percent level in the first 6 months of 1979 and 1980, imports with waivers have continued to be important in the TFSC's total imports.

8349

CSO: 4907

## CRISES IN TFSC BANKING EXAMINED

Nicosia BOZKURT in Turkish 22 Sep 80 pp 1,4

/Text/ "... Brokers now pay 44.5 percent on your money. Buy bonds from the strongest establishments in our nation."

"How much do you want in monthly earnings from ... Bank? 3,000; 5,000; 10,000; 100,000 if you wish."

"Highest earnings on your money with ... Bank's nonbearer certificates of deposit."

"Monthly or advanced annual earnings from ... Bank. Every month, just like a salary."

"100,000 from you, 100,000 from us. ... Bank doubles your money."

There are plenty of such advertisements every day in the newspapers and following one another on radio and television by banks and brokers in Turkey, touting the high interest and attractive procedures on savings. Can you imagine our local banks, in contrast, distributing advertisements saying, "Keep your savings with us. We pay 3 percent interest on your time deposits," in an effort to increase deposits in our banks? Attempting to advertise interest rates like 7 percent which, in the words of one of our bankers, "have been obviously outdated for at least 4 years," would serve only to worsen the cash shortage at our banks by reminding people of these ridiculous figures and making even more attractive the methods used by banks and brokers in Turkey to attract savings to the banks.

## Cash Shortage Continues

The TFSC /Turkish Federated State of Cyprus/ does not have its own central bank because it does not yet have legal status and has not devised an economic and monetary policy, and the liquidity shortage resulting from this as well as the fact that interest rates have not been raised in keeping with current economic conditions continues and is reaching frightening proportions with negative effects on our economy. Administrators of our local banks, worried about their inability to provide adequate services owing to the liquidity shortage, stress the importance and seriousness of the problem we are facing and all agree that those concerned must take serious and urgent measures without delay.



## Our Bankers Corroborated

We asked directors of local banks for their views in order to put the articles we have been publishing on the liquidity shortage on a more factual and knowledgeable basis. They confirmed the existence of a gradually worsening monetary shortage in the TFSC and said that savings in our banks had dropped by billions of liras in recent years and that people were quite justifiably shifting their savings to the centers where interest rates are much higher.

## Causes of Shortage

An officer of one of the large banks in the capital started out saying, "These are symptoms of disease. The underlying disease is that we have no legal status yet and the TFSC has no monetary policy," and listed the causes of the current liquidity shortage, which he described as an important problem for all of our banks, as follows:

1. The TFSC does not yet have its own central bank.
2. The Turkish lira, which is definitely predominant in the TFSC region, has no legal basis and has not remained strong; the Cypriot pound is now considered "legal tender."
3. Although investments and credits made by our local banks and financial institutions in Cypriot pounds have been being redeemed in Turkish liras (official parity set by the state is 36 Turkish liras = 1 Cypriot pound) for a period of almost 6 years, there has still been no law passed making it possible to convert the savings left in our banks which are still expressed in Cypriot pounds in our records into Turkish liras at the same official parity and because of this our local financial institutions are open to unacceptable risks or are perceived to be.
4. Because our interest structure which is obviously at least 4 years behind the times has not been changed by the authorities to conform to current economic conditions, the shifting of deposits to centers where interest is much higher has not been prevented and the TFSC banks have been forced into the present liquidity shortage.
5. Our state has failed to set a consistent export-import policy, especially in 1979, and, as unofficial imports from southern Cyprus have continued to grow because of this, our treasury has been deprived of that much in customs revenues.
6. No measures have been taken to prevent, even partially, the reflection on our young state of the tremendous inflationary pressures which prevail in foreign countries and especially in Turkey.

## Workplaces Will Be Closed

Pointing out that the money shortage which is beginning to have negative effects on our shaky infant economy and is largely responsible for the slump in investments will reach very dangerous proportions in the years ahead if serious and urgent measures are not taken, this bank officer said that a large number of our people have their savings in time accounts and, when the terms are fulfilled next

year, this money will be invested in high interest bonds or deposited in banks offering attractive benefits. "If the situation goes on like this, there will not be a business left in a year's time that has not shut down," he said.

#### Inflation

Although they give differing figures as to a decline in the rate of growth of deposits in our banks in recent years, our bankers agree that there is definitely a liquidity shortage in the TFSC, that with the money shortage a shortage of resources is appearing also and that even if there is a slight increase in deposits, a financing shortage is beginning. The director general of another of our large banks said the following about the money shortage:

"The increase of deposits in our banks is not in proportion to the inflation frequently reflected in our TFSC. This is a problem of monetary supply and demand. Deposits have not increased at the expected rate. A great deal more money is needed for services.

#### People Not Unjustified

Our local bank directors stress that our people are justified in investing their savings in the banks, brokerages and bonds which bring much higher interest and that the transfer of resources from here to other sources cannot be prevented unless the necessary legal steps are taken to raise interest rates in our country. Although they avoid giving definite figures, they point out that the money invested in Turkish Republic State Bonds is estimated to be well over 1 billion Turkish liras. Noting that many people also convert their money to foreign exchange and put it in British banks which they consider the wisest investment, our bankers said that the total amount of money withdrawn from our country by those wishing to take advantage of the Turkish banks' high interest rates was well over the total deposits in our banks.

#### Interest Rate at Least 18 Percent

One point on which our local bank directors all agree with regard to solution of the liquidity shortage in our TFSC is that interest rates should be raised, if not as high as in Turkey, at least to 18.2 percent. The bankers maintain, however, that this is not a simple procedure, that going this route requires great care and that raising interest rates will cause tremendous price hikes. They said that it was necessary for our government authorities to make a serious effort toward close cooperation with the mainland authorities in light of the views which our government authorities said they had conveyed to them in meetings on the subject in the past, otherwise it would be impossible for us to get out of this economic and monetary impasse.

8349

CSO: 4907

## PUBLIC HOUSING PROJECT AGREEMENT SIGNED

Nicosia BOZKURT in Turkish 19 Sep 80 pp 1,4

/Article by Bilbay Eminoglu/

/Text/ The sales contract for land which the government decided to sell to the TURK-SEN /Turkish Cypriot Federation of Labor Unions/-affiliated Labor Development Cooperative /IKK/ for construction of public housing was signed yesterday with a ceremony at the Interior and Housing Ministry.

The contract for the public housing project, which is scheduled to start at the first of next year, was signed in the presence of members of the press by Interior and Housing Minister Recep Ali Gurler and Labor and Social Security Minister Ozel Tahsin on behalf of the government and by President Necati Taskin on behalf of TURK-SEN.

## Sale Price 7.6 Million Turkish Liras

According to information given at the press conference held by the IKK Executive Board in connection with the signing ceremony, the land, consisting of 51.25 donums /1 donum = 940m<sup>2</sup>/, 2,000 square feet on parcels 90/91 located near Gocmenkoy on the Nicosia-Famagusta Road, was sold to the TURK-SEN-affiliated IKK by the Interior and Housing Ministry for 7.6 million Turkish liras, at a 63 percent discount off the market price of 23.1 million Turkish liras.

## 170-200 Units

Almost half of the land allocated to the IKK by the government and sold at a symbolic price since there is no profit-making motive will be set aside for such purposes as roads, schools, mosques, parks, clubs and day care centers and on the remaining portion, between 170 and 200 public housing units will be built, the largest to be the 120 square meter semi-industrial type houses.

## Ministry Efforts Continuing

In a statement made prior to the signing ceremony, Interior and Housing Minister Recep Ali Gurler drew attention to the Public Housing Law which is now in effect and pointed out that the ministry was continuing its efforts to encourage and accelerate public housing construction, to put the brakes on land speculation and to maintain the balance of supply of demand in public housing. He said that areas

suitable for public housing were being identified through studies, plans and feasibility studies and that applications by those qualified under the Public Housing Law were being evaluated and answered. Gurler stated that the ministry was working on a system to set rents according to the renters' ability to pay and noted in answer to a question that the land sold to the IKK had been legally expropriated.

#### TURK-SEN Project Realized

Labor and Social Security Minister Ozel Tahsin, speaking after Interior and Housing Minister Recep Ali Gurler, pointed out that the sale of the necessary land to the IKK had been realized as a result of close cooperation between his ministry and the Interior and Housing Ministry and said that with the sale of the land, the public housing project which TURK-SEN had submitted to the government in a memorandum some time ago was being realized.

#### Costs Still Uncertain

Speaking later, TURK-SEN President Necati Taskin pointed out that public housing, to which TURK-SEN has given importance for a long time and which is of economic as well as social importance, had reached a turning point and said that infrastructure facilities on this land would be completed as soon as possible with housing construction to begin at the first of the year, that no definite figure could be given on the costs, but they anticipated public housing costs substantially lower than normal market prices since construction would be done all at once.

#### Building in Other Regions Also

Noting that they would proceed with public housing construction for IKK members in other regions also if public housing were successful in Nicosia, TURK-SEN President Necati Taskin said, "In the presence of the ministers concerned, I would like to thank the Council of Ministers for its sensitivity in allocation of the land and to say that I hope this beginning will be auspicious for our community and all who work."

8349

CSO: 4907

## ANALYSIS OF ECONOMIC DYNAMICS, PROBLEMS, PROGRAMS, POLICIES

Lisbon A TARDE in Portuguese 8, 9, 10, 11, 12, 13, 16, 17, 18, 19, 22, 23, 24, 25, 26, 30 Sep, 2, 3 Oct 80

[Article by Luis Barbosa: "Reassessing the Portuguese Economy"]

[ 8 Sep 80, p 5: Non-Marxist Economic Solutions]

[Text] This is not the first time that I have ventured to write a series of articles on economic affairs since I began my professional career. I can recall the Economic Page of DIARIO DE NOTICIAS, and the Economic Supplement of A CAPITAL, O DIA and JORNAL NOVO.

Underlying everything that I have written to date there has always been a strong feeling of nonconformity and a desire to make our country progress.

At the present time, as in the past, that feeling and desire seem to me to be necessary for Portuguese society, during a period wherein intransigence and the power struggle are dimming the pragmatic view of the realities, and dehumanizing technology and ideology, which were created to serve mankind and not to tyrannize it.

We are at a bend in the road: everything can turn out well, and everything can turn out badly. Nothing in this world is irreversible except time. The years that are spent will not come back, but situations and decisions can be corrected.

While time, on the one hand, is a relentless judge, on the other hand it is an almost insignificant price for the total evolution of mankind, but one that is unacceptable for each individual whose conscious, useful life slips away within a few decades.

Nearly 50 years were spent with a dictatorship; and now it has been 6 years since 25 April 1974. For the generations which lived in this era, time is short. No one will forgive the mistakes that were made.



When I see the dirty streets, the ill-kept buildings and the hovels that are accumulating more each day, I feel a great desire to fight against the tide of mediocrity that has subjugated and numbed us.

I am here to do so, rather than leave it for other more learned spokesmen than I, without any pretension, but convinced that I shall not be crying in the wilderness.

I shall attempt not to be argumentative, and to remain aloof from both my political partisan activity and my professional activity. In other words, I do not want these articles to be converted into AD [Democratic Alliance] propaganda, nor to be possibly regarded as a result of professional distortion on the part of someone who was accustomed to being a professional entrepreneur in both good and bad times.

But what I write cannot help but reflect the experience from my political monitoring of the Portuguese economy in recent years, and the entrepreneurial experience gained before and after 25 April.

However, there is one caution. The ideas, analyses and solutions will at all times be contained within a non-Marxist model of society, as would logically originate in the pen of an anti-Marxist such as I. In this context, the ideas, analyses and solutions will at all times be markedly political. And when it is necessary to propose sacrificing technology for the sake of politics, I shall do so conscientiously but without hesitation.

When there exists such a radical discussion as there is in Portugal of the model of society in which we shall live, it is necessary to apply politics, in the useful sense of the term, to every decision that is made.

It must be proven constantly that liberty is not an enemy of authority, that the market is more effective than a planned economic system, that personalism is vitalizing and collectivism dehumanizing, and that social justice is a concern of everyone, but a reality only in the democratic countries with liberal economies.

Another word about liberalism. In Portugal, one cannot mention a liberal economy without having someone assume a scornful attitude and claim that we cannot return to the 19th century. Perhaps this is why our economy never really left the 18th century.

In a modern society, there will always be a certain amount of planning of the economic system, but it is also a fact that the state, as the agent of accomplishment, is answerable everywhere. The state has given poor evidence of its capacity for accomplishment, but no one denies it its function of guidance and control.

This is a proper time for us to reconsider the state's functions, so as to guarantee that its concerns and its resources will be essentially directed

toward goals of social justice, as part of an overall ambition to provide prosperity and happiness for everyone.

But let no one be too much concerned. When we talk about a liberal economy, we are satisfied with a model identical to that of the Federal Republic of Germany, to cite only as an example a country where many of our emigrants have gone to find the standard of living that our country has always denied them.

We have chosen for the title of this series of articles "Reassessing the Portuguese Economy." In fact, we have spent the last few decades in a model which Salazar devised in 1926, a corporativist, paternalistic model, contrary to the market mechanisms. The date 25 April did not drastically alter the existing model, but made it less flexible and bureaucratized it more than it was already, as well as increasing the degree of corruption therein. An attempt was made to eliminate some of the economic entities which, although they were not devoid of flaws, represented an important part of the more progressive forces of our economic life.

Hence, reassessing the Portuguese economy appears to be a timely and necessary task.

In this daily series of articles, we shall be receptive to any contributions that the readers themselves may care to make.

The task is not mine; the task is for all of us.

[9 Sep 80, p 5: False Economic Precepts (I)]

[Text] Many of the ills currently besetting the Portuguese society stem from the falsehoods that have been produced in recent years. In reassessing the Portuguese economy, we must explain these falsehoods, and have the courage to say that "the king is naked," when that is the case.

We have selected six major falsehoods; but others exist, shrouding the citizens in a nightmarish atmosphere which they themselves ordinarily do not know how to interpret.

#### 1. The Falsehood of the New Middle Class

It is indisputable that the atmosphere of wage euphoria produced after 25 April created a new middle class.

Caught by surprise, it did not have time to adjust to the improved income earned, and this was reflected in disordered consumption due to a lack of priority rating of the needs to be met.

We have a society wherein shellfish are eaten, people travel in automobiles, electrical household appliances are purchased, and yet people live in hovels, and health care and education are poor.

This new middle class seldom produces enough to pay the salaries that it earns, sometimes through its own fault, and other times owing to the defects in the very productive structure of which it is a part. Without having a real awareness of this, it lives off the state, either directly or in a sophisticated manner. It thinks that everything it receives is its due, on the basis of a mere redistribution of income. It thinks that justice was done to it as part of the new criteria of social justice.

The new middle class constitutes the great clientele of the Marxist and socialist parties, and it does not yet realize that only a liberal, anti-Marxist economic system can prevent it from losing all of the benefits won from 25 April to the present.

Without economic development, without a drastic increase in the total productivity of the economy, operating on market terms, the prosperity that has been achieved will not be maintained, because that prosperity is an artificial result of a political maneuver, attained at the expense of a state indebtedness which will necessarily have its limits.

Therefore, the new middle class is acting dreadfully in error when it votes Marxist or close to it, because it is thereby voting for a politicoeconomic model that will lead it to proletarianization again. The demands of the Polish workers should be a source of meditation for the new middle class.

## 2. The Falsehood of the Permanent Debt

In 1980, the General State Budget will be executed with a deficit that may not be much less than 150 million contos. A massive contribution to this deficit is made by the service on the public debt (70 million contos in interest and amortization) and the budgets for the public enterprises (33 million contos).

The effort that the various governments have made to maintain the artificial situations which were created, and to reduce the effects of the lack of productivity or of uncontrolled spending, has resulted in a permanent and growing state debt.

Socialist views have prompted the governments to increase the state's responsibilities as well as its intervention, without regard for ascertaining to what extent it would be capable of running such a system with minimal efficiency.

Now questioning the decisions that have been made since 25 April is not questioning 25 April itself, but rather showing signs of a critical capacity that 25 April attempted to release.

The fact is that there has not yet been sufficient courage to clearly expose all the mistakes that have been made, and even to propose that we turn back, insofar as it proves useful. Many individuals with responsibilities appear

to be convinced that they will be able to perpetuate the deception in which we are living, agreeing that it should be the state which withstands its consequences indefinitely.

Thus, it would appear that the debt has no limits, based upon the notion that we have not yet reached the "plafonds" [ceilings] that are regarded as maximum from a theoretical angle. Victory is even hailed when slight improvements are made in the deficits registered, without taking the trouble to ascertain how the transition will be made from deficit to balance, or to a "surplus," which would make it possible to reduce the debt accumulated in the past.

All societies must correct their mistakes, and the Portuguese society cannot escape that rule. The state's nonreproductive debt has limits which, if we continue at the current rate, we shall without doubt reach during the 1980's.

### 3. The Falsehood of the Allocation of the State's Resources

We have already noted that, during 1980, the state will allocate 33 million contos to the public enterprises. Can that be the best social use to which a budget of such size could be put?

25 April established as one of its priority goals the improvement in the living conditions of the most underprivileged classes. Companies were nationalized on behalf of those goals. Would the most underprivileged classes agree that the best way of meeting their most pressing needs is, for example, to create industrial complexes in Sines the income return from which is highly dubious?

With 33 million contos, the country's system of hospitals could be renovated, or a school system could be created, or a substantial improvement could be made in the road system.

It may be claimed that part of the 33 million contos relates to reproductive business investments, but we ask whether education is not a far more reproductive investment, or the population's health, or easy access among the regions.

Only the state can make investments in education, health or roads, while business investments can be made by private enterprise, and experience has now shown us that this can be done advantageously.

There is still another example.

According to the figures at my disposal, in 1980 the state will subsidize the price of sugar with about 4 million contos. More than minimal consumption of sugar is bad for the health.

Moreover, sugar always accounts for a very small amount of the family expenses, even among the lowest income groups. Would it not be preferable to spend that 4 million contos on milk subsidies? Or on the distribution of fruit to the needy children in the schools? Or even to remedy the problems of pauperism?

We think that the two examples selected are sufficient to prove that we shall have to reflect very carefully on the alternate uses of state funds.

But one thing is certain. At the present time, because of the structures created by the Goncalvist and Socialist governments, those funds will continue to be spent erroneously, and it is precisely the most underprivileged classes that suffer the impact from those mistakes. There is an enormous falsehood in this area.

[10 Sep 80, p 5: False Economic Precepts (II)]

[Text] In the previous article, we described three of the six falsehoods selected: the falsehood of the new middle class, of the permanent debt and of the allocation of state resources.

Today, we shall discuss the remaining three.

#### 4. The Falsehood of the Conditions Necessary for Development

The economists in Portugal have been trained in an atmosphere wherein the prevailing theme has always been to curb development. The development of Angola and Mozambique was curbed, and the normal development of business firms was curbed. The new ideas and practices which could have brought us closer to Western Europe were curbed.

We are a small country, with small and medium-sized tradesmen and small and medium-sized businesses; and hence it must be concluded that everything in Portugal is small or medium-sized. The horizons that individuals set for themselves and for the country will also be small or medium-sized.

But we have always had a great desire to boss (rather than exercise real control, because that has almost always escaped through our fingers), to intervene, to bureaucratize and to centralize.

The result of all this has been that there is no one in Portugal who upholds a policy of development; rather, that policy is always going to be put into effect in a later phase. The first phase is always to create the conditions necessary for development; that is, to control, to centralize and to curb. The development will come in a second phase, which never really arrives.

Now the essential condition for embarking on development is the overpowering lack of it. Later, there will be conditioning factors that we must take into account, but it will be by surmounting those conditioning factors that development will take place.



Actually, with every passing day we become poorer and more indebted, and hence we must confront greater difficulties.

Then what are we waiting for?

Even the political instability will be only one additional difficulty to surmount, because the stability itself may have to entail an improvement in economic conditions.

When we advocate the mobilization of the indemnifications for new investments it is because we are convinced that the indemnifications will be turned over to investment even in a politically and socially unstable situation.

To think that, some day, we shall be in a favorable position for development is a falsehood that tends to conceal our natural proclivity toward control, rather than accomplishment.

##### 5. The Falsehood of the Abundance of Investors

To invest in Portugal has always been an obstacle course. There are even some who think that, once the obstacles have been traversed, they are entitled to a prize. There was the case of the sale of licenses; there was the case of the sale of land with projects that were approved.

In the civil construction sector, there are some who build without ever having obtained approval for a project; just as there are some who have projects approved without ever having built. Of those two types of individuals, it is the latter who earns the most money and runs the least risk.

We must recognize the fact that Portugal has been heading toward a path increasingly close to that of the Latin American countries: difficulties are created so that facilities may be sold, which is an imaginative way of setting up corruption.

No one would have the courage to describe himself as opposed to investment or to investors, and the legal mechanisms for stimulating them may even be created; but, concretely, the obstacles, the permits, the studies and the analyses have served to put the investor's patience to the test.

Everything occurs as if to invest in Portugal one had to take a test in order to be entitled to heaven; but, in reality, being an investor in Portugal, if not hell, is at least purgatory.

Actually, anyone who carefully analyzes the position of a large portion of leaders toward investors and investment would conclude that we are faced with a superabundance of entrepreneurs and projects which, for reasons of selection, must have their lives or accomplishment made difficult.

There is an obvious falsehood in this position. If we make an accounting, and find out how much we have to invest, produce and export in order to live on what we earn, we shall readily infer that investors are scarce and projects few and insufficient.

The politicoeconomic system, established constitutionally and by the common practice of the administration, is enough to frighten any native or foreign investor.

When we invite foreign investors to become established in Portugal, or give them conditions identical to those in the other West European countries, or grant them the use of cheap labor, as in the Eastern nations, to try to lead them to accept as good the principles resulting from the obtuseness of the political-oriented concepts of the economy is merely absurd.

We must be a normal country for normal investors. Anything else is a falsehood that must be courageously exposed.

#### 6. The Political Falsehood Between the Ends and the Means

The liberating revolution of 25 April soon forgot the ends toward which it was aimed, becoming lost in the means.

The ends were obvious: to create a democratic regime in Portugal, to give the Portuguese people better living conditions and to resolve the colonial conflict. It should have been the people, to whom it was claimed the political power was intended to be given, who chose the means, beginning with the selection of the politicoeconomic system under which the Portuguese people wanted to live.

In fact, that did not occur. The interference in the constituent powers through revolutionary means was obvious. The procommunist government of Vasco Goncalves laid the groundwork for an economic system that is still being maintained.

It should be recalled that the famous Melo Antunes report, produced by individuals such as Rui Vilar, did not advocate the nationalization of the banks.

Hence, we have embarked on a fruitless discussion of the means, and a discussion of the model of society, moving away from the necessary effort for the ends which 25 April proposed. Decolonization took place at a price that does not befit us to discuss within the scope of this article.

Only the political militants are still bound to the "taboos" started by Vasco Goncalves. The people are concerned with their liberty, their security and their prosperity. Either the system produced throughout recent years serves those ends, or it interferes with them. If it interferes with them, it will not be worthwhile to nurture ideological complexes resulting from falsehoods.

[11 Sep 80, p 5: Debt Moratorium, Reorganization]

[Text] In the two previous articles we discussed some of the falsehoods under which the Portuguese society is laboring and which urgently need to be exposed.

In the articles to follow, we shall concern ourselves with the General State Budget [OGE]. The OGE contains a great heterogeneity of problems the solutions to which must be discussed. The OGE is also one of the most accurate reflectors of the serious bottlenecks that we shall have to clear.

In 1980, we shall continue to administer our public finances in accordance with the principles and precepts established by the 1926 regime. This appears to be anachronistic, especially when it is felt that the structure of each country's budget is aimed at gearing to the realities that the country is experiencing, in a constant attempt to optimize the overall "performance" and apportionment of the state's resources.

At present, our OGE is, on the one hand, a bottomless sack and, on the other, an enormous pot in which are kept boiling all the excesses committed in the country since 25 April, but particularly since 11 March.

Hence, the pot must be emptied so as to perceive what is in it, clearly explaining to the population the destination of the income, the reason for the options and the causes for the restrictions.

My first instructor of finance used to say that the General State Budget could be converted into one sheet of paper attached to the wall, and everyone would understand it. This is the challenge that we must accept. Moreover, if the United States budget fits into a brief summary that is easily read, it does not seem to us that we should be making what could be simple complicated.

The Portuguese state is in a situation that is not much different from that of a business firm that has failed. It has a large accumulation of liabilities (public debt), and every year registers expenditures in excess of the revenue. Hence there is an annual increment in the accumulated debt.

In a bankrupt business firm, what would be done to find a solution?

It would be ascertained whether the expenditures could be reduced. When the extent to which the expenditures could be reduced is slight, there would be only one course of action left: to increase the revenue in one of two ways: an increase in prices or an increase in sales volume.

Translating this formula to the state entity, we would say that, since it is difficult to cut spending (a very high percentage of the current outlays is assigned to personnel), all that remains for us is to increase the revenue; that is, to increase taxes or to increase the taxable area.

Since taxes have already reached amounts that are considered intolerable, even after the reductions made in 1980, the only solution will be an increase in the taxable area, preventing tax evasion or fraud, but particularly through economic development.

Thus, one concludes, perhaps simplistically but not any less realistically for that reason, that the present imbalances in our public finances can only be corrected through economic development.

This conclusion will gain even more consistency if we consider the fact that the social services of the state are still on unacceptable levels, and that much more will have to be demanded of the state itself, from a social standpoint, in the years to come.

Such an effort will only make sense if, on the other hand, the citizens are not overwhelmed with taxes.

But let us return to the example of the bankrupt business firm.

With increased sales established as an essential condition for restoring balance to the profits and losses from exploitation and for the recovery from the accumulated damage, one has the notion that a moratorium is necessary that will allow the firm to become reorganized and to create the vitality essential for the resumption of its activity.

It is for this reason that the creditors' agreements normally call for a period of shortage during which the interest is accumulated on the owed capital, and not until that period has elapsed is a system of medium or long term amortization begun.

If the situation is serious, it might even call for the nonpayment of interest or reduction in the owed capital, which would represent damage to the creditors.

Regardless of how serious the situation may be, the Portuguese state cannot go to such extremes; but it will require a period of shortage to solve its problems.

In other words, a period in which the public debt service (interest and amortization of past debts) is frozen in a budget stabilization fund.

Accounts already made warrant our belief that a 2 year period of shortage should be established, during which the interest and amortization should be entered in the stabilization fund. The same accounts lead us to assume that the amortization period should not be less than 10 years, so that the burden to be borne annually with charges from the past will be moderate.

In 1980, the debt service, excluding the effects of the operation carried out with the revaluation of gold, will amount to 70 million contos. If the

suggested criterion had been applied this year, the total deficit in the budget would have been reduced to under 80 million contos, and the 70 million would have been placed in the stabilization fund.

It is obvious that the fund will have to be financed on terms similar to those on which the OGE deficits are currently being financed.

This method is not magic, but it is a means of taking care of the expenses which reflect the charges of the past, not confusing them with the present situation; and it is also a means whereby the nation, the political parties and the governments become committed to an amortization plan that will contain the overall orientation for a future which cannot roam at the whim of political vicissitudes without serious damage.

The procedure suggested would be a means of putting an end to the falsehood about the permanent debt, and would lend our economic policy far greater realism.

The political instability that we are experiencing has a cost which is borne by many citizens and which the state may well have to bear. Let us isolate that cost and establish the most suitable way for the nation to pay it, within an acceptable period of time. But let a 2-year moratorium be established, which will allow the nation to prepare for a different future, even though it is burdened by the charges of the past.

The subsequent articles will help to make the idea that we have outlined clearer.

[12 Sep 80, p 5: Government Expenditures, Investments]

[Text] There has become entrenched in our public finances a set of criteria categorizing state expenses as current charges and capital charges. Hence, the balance between current revenue and current charges has been stressed as a goal, and it has been considered acceptable for the state to go into debt, within certain limits, in order to cope with the capital charges that will have to be incurred each year.

It is obvious that such a concept is linked with the notion that capital charges are reflected in investments, and that investments will be reproduced, either directly or indirectly, giving rise to new revenue for the state.

Now if it is acceptable to consider the state's investments reproductive and generators of new revenue, one can question what is currently investment or current spending.

When the state spends budgets on education, is it investing or making an outlay? When the capital of a public enterprise that is systematically showing damage is increased, is it investing or making an outlay?



Is it not an investment to start a campaign to eradicate a certain disease? Is not all preventive medicine an investment? Are professional training and education in general investments, or are they not? On the other hand, is the purchase of a building in which to install administrative services, in fact, an investment, or is it only another current charge?

In the case of all these questions, we would like to express two doubts:

Whether it will not be necessary to review the classification of charges, with all the deep implications stemming therefrom in terms of the strategy for the state's action; a state which will most likely have to invest heavily in activities that it now considers current charges, and drastically curtail certain investments the reproductivity of which is dubious, which could be made by the private sector, or which, when the situation is viewed carefully, are nothing but mere current charges.

Whether the balance between current charges and current revenue will continue to make sense, or whether consideration will first have to be given to the application of available and movable resources in a general way, and their allocation on the basis of social and economic usefulness.

These two doubts are sufficient to cause a stir in the entire budgetary structure and in the deepseated options that confront the modern state with respect to the use of its financial resources.

Another aspect that we consider highly relevant and not receiving proper treatment in the OGE at present is that of the charges with multiannual features.

Why must the budget for a fiscal year bear certain charges or investments that should be amortized over the medium or long term?

Let us take the case of the decolonization, for example. Outlays were made which were charged solely to the accounts of the years in which those outlays were made. But decolonization takes place once in the history of a nation. Why not create an individual fund to accumulate the inherent outlays, establishing a reasonable amortization period?

In the life of a business firm, and far more in the life of a state, only the medium and long term represent reality. An annual budget is only an interval in that more vast reality.

What we said about the expenses of decolonization also holds true for all the financial efforts relating to the starting of a concrete action which will have long term effects; because the compensating factors, whether social or economic, are often meager at the outset, and are only reflected in time.

If the state undertakes an effort for intensive professional training, it will spend far more during the early years than in the subsequent period of

continued training activity. It does not seem at all ridiculous for the initial effort to be amortized throughout a preestablished interval.

If such a procedure appears proper for intangible investments, it will certainly be far more proper for tangible investments.

In fact, the initiation of a network of roads, as well as the construction of a group of schools or hospitals, could be accomplished on an extra-budgetary basis, provided the budget absorbed the respective amortization annually.

The state's financial problem will be one of balancing its revenue and its outlays in time, still taking into account the necessary financing to cope with extra-budgetary investments and to pay its debt, which will have to be kept within the feasible bounds of security.

In this context, the OGE would be, from year to year, the group of real current charges, to which would be added the amortization from a group of funds, relating to tangible and intangible investments, with multiannual effects.

If this operation were carried out, our General State Budget would immediately assume a new numerical form and, what is far more important, the nation would acquire an awareness of its long term problems, lending future meaning to a present that is being lived without long-term objectives.

Thus, the state would start devising specific medium and long term projects, with goals and costs that are well determined. For such projects, it would, of course, be far more difficult to muster both external and internal backing.

[13 Sep 80, p 5: Analysis of Budgetary Structure]

[Text] Segment in order to comprehend is one of the fundamental principles of marketing. What applies to the complexity and heterogeneity of a market also applies to all complex and heterogeneous problems.

In analyzing the General State Budget, one cannot help but feel the perplexity inherent in what one does not comprehend; and hence the advantage of undertaking a segmentation geared to the nation's realities, which would clarify the financial flux associated with the state's functions.

A question stems from this: In a modern state, which functions should be considered fundamental?

We shall not give an exhaustive answer, but no one would harbor any doubts that to educate and to provide health care, to guarantee social security systems, to promote the construction and conservation of infrastructures, to guarantee defense and to promote justice are, among others, state functions.

But it is very important that, for each function, there be a corresponding portion of the budget, with revenue and charges: direct revenue and the contribution from indirect revenue, operating and investment charges, including the annual installment related to amortization of investments of a multiannual nature.

If we take, for example, the budget for educational operations, we would have on the revenue side that charged directly to the users and that originating from the total bulk of contributions and taxes; and, on the charges side, those resulting from the operation of the ministry, schools, etc., and the charges from investments in equipment and facilities, or from the amortization of the multiannual funds set up for that purpose.

When these figures have been submitted, it would be very helpful to regionalize them. How much is spent and how much is invested in education in each district? Or at least, in each province or region?

This is because it does not suffice to claim that the illiteracy rate in a certain area is very high; it must be ascertained, annually, what is being done to reduce that rate.

Moreover, the austerity in our spending must be managed, and that management will not mean merely distributing the misfortune among the villages. As part of a goal of austerity and tightening, there is nothing to prevent the state, in a specific area, from considering massive investments as priorities, while a budgetary cut could be acceptable in other areas.

It may be said that those who are curious might now give the available OGE figures the treatment that we mention. But the problem does not lie in finding out that the figures exist. The manner of submitting them is basic, not only because the manner has an underlying philosophy, but also because the submission of the data to the citizens clearly, and submitting oneself to public criticism and the formation of an opinion which, sooner or later, will decide the direction of the vote in the elections, is the essence of democracy itself.

We are talking about a segmentation according to function and, as part of that, a new regional segmentation. They seem logical to us. But the essential problem is to find, in each instance, the segmentation which appears most useful from a political, economic and social standpoint.

It can be any segmentation, provided it indisputably serves the interests of the Portuguese people.

The advantages of the segmentation are not confined to a greater facility in understanding the budgetary problems besetting us. The segmentation will also be the basis on which there will be constructed a new order of responsibility and also the creation of healthy conflicts of interests.

If we want a different future, we shall have to construct a different budget. All the state's expenses are in question.

Managing the state's resources will, without doubt, entail total control of the revenue and charges; but, for far more weighty reasons, it will also entail a discussion of the possible options, and of the usefulness and occasion of each outlay.

A democracy cannot be constructed with a budgetary structure that we inherited from a dictatorship and which, moreover, is 60 years old.

To change that structure is not a task that can be accomplished in a matter of months; it is an inevitable basic issue of the 1980's.

[16 Sep 80, p 5: Federally Funded Public Services]

[Text] Immediately after 25 April, the Marxist left emphasized several "slogans": "Equal work, equal pay," "To each according to his needs," etc. But, when certain clienteles were satisfied, the "slogans" that I cited quickly ceased to be used.

It is a pity because, now that they have started turning over land to the workers who actually work it, the same political forces have concluded that there has been an attack against agrarian reform, an agrarian reform which was launched in a revolutionary manner with the main idea that "the land belongs to those who work it."

Of the "slogans" that have been used, it is the latter, "to each according to his needs," that most merits my agreement, provided it involves the transfers that the state must make to the citizens in the area of services rendered and specific aid.

For a poor, debt-ridden state, would it make sense to divide the available resources equally among all the citizens?

Would it make sense for a poor, debt-ridden state to subsidize, on an equal basis, the medicine or food of a citizen with a fortune and of one who lives on the national minimum wage?

I think that the furor of collectivization that invaded the Portuguese society has caused forgetfulness of the most elementary principles of social justice. After all, we are living in a system that has taken several steps in the direction of total collectivization but, since it has not taken the next ones, is not a communist society nor a free, democratic society of the West European type either. From a social standpoint, we are faced with a heap of inconsistencies that must be corrected.

The free, or almost free nature of the services rendered by the state has been a highly popular political message in recent decades, in many countries.

free education, free medical care, an infinity of free administrative services, etc. Without discussing here the feasibility of such an objective, it would be fitting to analyze the efficacy of the state's spending done in that manner.

At present, the citizens are contributing to the General State Budget with their taxes, and are receiving a mass of services the cost of which is completely unknown. The public entities rendering these services attempt to increase their budgets at the expense of the total state resources, without any questioning of the efficiency of the services rendered or of the return on the money that is spent.

There has resulted from this an obvious atmosphere of irresponsibility, and a squandering of funds which the governments can only curb through cuts in across-the-board budgets that are, for this very reason, blind and overriding to the specific problems of each department.

Now the establishment of a realistically calculated price for the service rendered is a means of controlling and curbing expenses, through an increase in their efficiency, that is of indisputable value.

How much does it cost to issue an identity card? How much does a school year in the preparatory course cost? How much does a medical consultation cost? When those costs and the pertinent prices are established, we may perhaps arrive at such ridiculous figures that the knowledge thereof would bring about an immediate correction in the anomalies and abuses, or an improvement in the quality of the services.

In fact, with a free system, the user does not feel that he is entitled to make demands and the agent rendering the service does not feel obliged to serve. The free of charge system produces qualitative deterioration and irresponsibility.

This qualitative deterioration leads to another type of injustice. It is that the citizen in a better economic situation, when faced with the unacceptable quality of the service rendered, when he needs it resorts to private services of an expensive nature to solve his problems. But the citizens who are less well off cannot do that.

Now I invite the readers to imagine what would happen if a large portion of the services rendered by the state should be paid for at their real cost, and if the state were to subsidize the citizens for paying for such services.

Suppose that the issuance of a certificate cost 10,000 escudos, or a 2-minute medical consultation cost 1,000 escudos, or even that a month of secondary education cost 10,000 escudos.

Would the users accept such a situation? And would those rendering the service have the nerve to demand such a price?



When discussing the difficulties, which are real, in curbing the state's expenses, we would not find a more effective, more just and more useful method than the one we have proposed.

The curbing of the state's expenses necessarily entails assigning responsibility to the users, who must have the capacity to make demands, and to the state's agents, who must have an objective notion of the usefulness of the funds that they spend and of the obligations that they have toward the users.

To be sure, a system of this type would necessitate an increase in the number of departments with financial and administrative autonomy, and even the conversion of certain services into public enterprises. Doing so would increase the degree of control over the state's spending and would drastically aid in the streamlining thereof.

The state's main financial function would become the collection of taxes and the transfer of subsidies to the citizens. Public services or enterprises would have their own revenue and their own expenses, charging the users for the services rendered directly.

It is obvious that such a procedure can only be adopted in services that can be individualized. Services that cannot be individualized would always remain outside of the system.

If we agree to convert the services that can be individualized from free to payable, and to have the state give the citizens the subsidies with which to cope with the prices that will be asked of them, we would be in a situation socially equal to the one that exists today; but we would have gained in the clarification and streamlining of the state's expenses, and would certainly have contributed to holding its agents responsible. Everything would become clear and public, and hence democratic.

Our public services have not yet been changed so as to have respect for the citizens they serve, and for that very reason they are still far removed from corresponding to the normal services of a democratic society.

In the democratic regime that we all desire, the citizens respect the state, but the state also respects the citizens. It is only in the totalitarian regimes, of the left or right, that the state does not respect the citizens.

Democracy must live with us every day, and cannot be reflected merely in an electoral act wherein the voter is called upon to put a paper rectangle into a ballot box, for years and years.

[17 Sep 80, p 5: Federal Powers, Resources, Expenditures]

[Text] In advocating payment for the services rendered by the state, and having the latter subsidize the citizens directly, we have considered the feasibility of increasing the number of state departments with administrative and financial autonomy, and also the conversion of some into public enterprises.

Now one course of action of this type would make it possible for the users themselves to participate in the management, in a degree to be determined in accordance with the specific conditions in each department; but, in particular, it would afford the possibility of allowing for a qualitative improvement in the services rendered, through voluntary contributions.

There is no discernible reason to forbid the citizens from contributing financially to improve the quality of the services rendered by a hospital or a school, in addition to the minimal standards insured by the state. But it is obvious that, in order to bring about such assistance, the participation of the communities' representatives in the management itself is an essential factor.

Once again, in proposing structural reforms involving the state's expenses, we are going directly to the essence of the democratic system.

The population's involvement in essential decisions and in the ordinary management of state agencies which serve it locally is an obvious way of combating bureaucratic centralism and of giving each citizen a different sense of his responsibilities toward the common problems, and also of allowing for a daily democratic existence.

In a country where the responsibility for everything that is going badly is assigned to one "of them," without knowing for certain who "they" are, the method proposed is a practical means of converting "them" into "us."

There is another essential problem in this analysis that we are making of the use of the state's financial resources. Should the state concentrate on a small number of expenses, or disperse them, splitting up its revenue into an infinite number of small free services?

Concretely, should the state concentrate its spending on basic functions (social security, health, education, infrastructure and housing) and charge an appropriate price for all the other services that it renders?

In my opinion, the advantages of the concentration appear unquestionable, except in cases of poverty which, of course, would have different social treatment.

Also, the state would not be able to stop guaranteeing certain services that cannot be individualized, such as defense and security, outside of the system that is proposed.

But the concentration of the state's effort on a limited number of fundamental areas would certainly bring the benefits which always result from intensive action on essential points.

If we combine with the entire mental picture that we have been drawing the idea, which moreover has already been aired in a previous article, that the citizens should be subsidized by the state, in accordance with their specific needs, we shall have created a system capable of making the Portuguese society progress socially in a far more rapid and effective way.

From all that we have written thus far in this series of articles, the following conclusions may be drawn:

1. A series of falsehoods has been created in the Portuguese society which are urgently in need of resolution, and the General State Budget is an accurate reflector of a large portion of those falsehoods.
2. The state is faced with a group of functions which exceed its financial resources, and hence it will have to reduce the number of functions that it performs and concentrate its efforts on fundamental functions of indisputable social, political and economy usefulness.
3. All the state's expenses are being challenged, as are the concepts of spending and investment as well.
4. We shall require a budgetary moratorium of 2 years to start up the country again and to make the public finances viable over the long term.
5. The state must introduce a new philosophy on multiannual charges that will enable it to gear itself to the modern concepts of investment and the respective financing.
6. The General State Budget should be segmented according to functions and regionally, so as to allow for greater clarification of the management of public funds and also the streamlining thereof.
7. The citizens should be subsidized in accordance with their specific needs.
8. The services rendered by the state should have a price, which the citizens will meet through the subsidies that they receive, in accordance with their respective output and the specific conditions in their family groups.
9. The administrative and financial autonomy of the departments which render services that can be individualized will be a means of assigning responsibility for management and of allowing the population to participate in the orientation of those departments.

Everything that we have said seems to us to constitute a set of principles which could establish a new formulation of the state and its functions.

Only with that new formulation will it be possible for the state's spending to be compatible with our economic situation, without jeopardizing the social progress that the population needs, with a constant spirit of concern for the most underprivileged citizens.

Only economic development will cure our wounds, but that does not preclude, despite the fact that we are ill, our using the energy that is available in a way that is more just socially and also more effective.

We have not exhausted everything that we want to say about the OGE. We shall continue to discuss the matter, and to submit our suggestions.

The theme underlying all the ideas that have been voiced is that of putting the expenses in order. An orderly house, even if poor, imposes discipline on everyone and prevents them from throwing waste paper and cigarette butts on the floor.

All masks fall off when the carnival is over, and we are about to end Ash Wednesday.

[18 Sep 80, p 5: Inflation, Money Supply]

[Text] After the publication of eight articles in this series, we have received a favorable comment and a criticism. It seems timely to discuss them now, because in this way certain aspects underlying the proposals that were made can be clarified.

Someone told me that the articles continue to encourage thinking outside of the environment in which we live and, also, that after all the OGE is not a mystery, but only easy to fathom when one knows how.

In fact, it is not hard to imagine even our friends saying that the ideas are good but there are certain difficulties, or that this is too ambitious a plan: in short, all the variants of those who think that the "status quo" is always more comfortable than change.

Essentially, people are not very fond of getting up from their chairs to look objectively beyond where they are sitting.

For our part, we shall only ask all the people comfortably settled in the pleasant mediocrity in which we customarily live in our country, whether the present situation is proper, and not which are the most appropriate processes to be corrected. We are by no means bound to our solutions, but we are tightly bound to the idea that solutions must be found. If they are not the ones we propose they will have to be other ones. Putting one's head under the pillow and ignoring things will never be a solution.

There will also be some who try to find in these articles differences of opinion with the present government. We wish to remind them that the

analysis in which we are engaged goes far beyond the last 8 months of government, and therefore deals with the deepseated problems of the Portuguese society and not with short term cyclical aspects.

The view that the OGE is not a mystery, but only easy to fathom when one know how, is a pleasing observation to hear, for one who thinks that the informing of the citizens and an objective explanation of the national problems are indispensable features of a democratic regime.

There need be nothing up the sleeve when the force of the ideas that we uphold and of the solutions that we propose is sufficient to convince us and others that we are on the right path.

But they also direct a criticism at us. When we cited the feasibility of establishing a budgetary moratorium of 2 years to start up the country again, we suggested the creation of a budgetary stabilization fund in which the charges to the public debt relating to the 2 years of the moratorium would be entered. Someone hastened to assert that, by so doing, we would increase the monetary supply, creating conditions to worsen the inflation rate.

But his assertion, which we do not fear, seems hasty to us. The creation of the fund to absorb the charges to the debt for 2 years is, primarily, an orderly arrangement of expenses aimed at forcing any government to set up a future amortization program. In other words, that program will force the governments to face the realities of the Portuguese economy very pragmatically. The money supply will only increase if, when the debt service is provided for in the fund, the expenses of the fiscal year increase and, consequently, the state debt increases. But we do not say that the expenses should increase.

Then it seems rather unrealistic to us to operate with only two variables. Even if the money supply is increased, the inflation rate will not cease to depend on a far more extensive group of variables.

It is not our intention to discuss the inflation problem now, because it must be scrutinized in the same way that we treated the OGE.

But we must consider whether it makes sense to talk about an inflation rate, or inflation rates, for different categories of products. The increase in the price of gasoline, depending on the international oil price hikes and with final margins and prices completely controlled by the state, will have little to do with the increase in the money supply.

The price of wine, depending on the volume of the annual random harvest, will be rather insensitive to the inflationary repercussions from the increase in money supply.



Now the price of beef, with meager production and free prices, could show a greater sensitivity to an increase in demand.

But could not the increase in demand be reduced by stimulating savings? In a country wherein the purchase of private housing and the creation of new means of attracting savings have a long road to cover, it may be claimed that it would not be difficult to offset increases in the money supply by reducing consumption.

On the other hand, with an industrial structure and labor below capacity, productivity and production have great possibilities for growth.

Without embarking on a more thorough analysis of the inflation problem that we intend to make later, we think that we have outlined sufficient arguments to prove that the budgetary stabilization fund, equal to an increase in the monetary stock and equal to more inflation, are equalities that remain to be proven.

The fact is that the macroeconomic models which are in style presuppose that a stimulus will be met with a gamut of responses within the normal mechanisms of the economy. But can the Portuguese economy, at the present time, be considered normal, or are we looking at the reality through the diaphanous veil of fantasy?

Fortunately, what still remains of market mechanisms and private enterprise is sufficient to fill the gaps in a planned economic system bouncing backward and forward that has been typical of the past few years.

[19 Sep 80, p 5: Financing of Special Funds]

[Text] When anything is sinking, an attempt is made, with the use of a group of auxiliary floats, to prevent the sinking. Obviously, the floating capacity of the floats cannot be less than the force which is causing the submersion of the object that it is intended to save.

The technicians will forgive us if the terminology is not correct, but the image serves us quite well for the suggestions that we want to make today.

Behind the OGE there may be a series of extrabudgetary funds and instruments as well which absorb the state's expenses, contributing to the rebalancing of our public finances. This effort should be aided by a streamlining to be made in the budget itself; and, on this subject, we think that we have made in previous articles a sufficient number of suggestions to open up new horizons.

The floats which we now advocate are aimed at providing a solution, in keeping with our political, economic and social status, to some of the most serious problems affecting the OGE or affected by it, in view of its present inability to solve them satisfactorily.

When we say that the floats would be extrabudgetary funds and instruments, it is because the features that they assume are varied, ranging from the mere redistribution of the transfers from the state to the citizens, to multiannualization of certain expenses, or the solution to problems without resorting to the OGE.

It should be noted that there is now, in the periphery of the budget, a considerable number of funds, the functions and functioning of which have been deteriorating; and hence a reconsideration of their operativeness and maintenance is in order.

What are the floats that we propose immediately?

Budgetary stabilization fund

Enterprise recovery fund

Fund for payment of indemnification

Fund for social equalization

Fund for financing the purchase of private housing

Real estate investment associations

Fund to reequip the Armed Forces

In listing this group of funds and instruments, we are not ruling out the creation of others, in accordance with the general principles that we discussed in the previous articles.

We shall cite each one briefly, and in the forthcoming articles analyze as thoroughly as possible the problems which underlie them and the way in which they can operate.

**Budgetary Stabilization Fund**

Designed to accumulate the public debt service during the 2-year budgetary moratorium, which will make it possible to start our economic activity again and to reorganize public finances. We reviewed it in a previous article.

**Enterprise Recovery Fund**

Since 1974, many public and private enterprises have been accumulating damages and have been forced into obvious bankruptcy situations.

These enterprises can only be put on a sound footing if this fund absorbs the damage which goes beyond any realistic plan for making them viable.

This damage is the price of a revolution for which the nation will have to pay over the long term.

#### Fund for Payment of Indemnification

Every investment has a recovery (pay back) period. Therefore, it is inadmissible, when the state has nationalized enterprises, for the latter not to produce the necessary funds with which to pay indemnification.

Even though, in either instance, the situation appears so unfavorable that it does not allow for a recovery of the investment, we cannot accept such a situation as a general rule.

To force the interest and amortization for the indemnification securities to come from the OGE seems to be a way of conspiring with disorganization and irresponsibility.

#### Fund for Social Equalization

The subsidies for products and services financed by the Supply Fund have become unbearable and socially unjust.

With the country coping with the budgetary problems that have been cited abundantly, it does not make sense to subsidize both the national citizens and the tourists, giving Spanish citizens from the border areas an opportunity to obtain a basket of purchases in Portugal the price differences of which are being borne by the Portuguese state.

Moreover, the Supply Fund, in subsidizing all citizens alike, regardless of their economic status, is committing another serious social injustice.

The reasons given lead to the conclusion that the direct subsidies for products and services should be drastically reduced, and the funds spent on them should be used for subsidies to family groups, in accordance with the specific needs of each.

#### Fund for Financing the Purchase of Private Housing

As we shall have occasion to demonstrate, the OGE can be substantially relieved of the financial effort that it has been making to improve housing conditions in a very modest way.

The suggested fund can, through financing from the banking system and other assistance, withstand over the medium term a far greater effort at construction and purchase of private housing without any increase in the cost to the OGE.

#### Real Estate Investment Associations

While one part of the state's real estate holdings has a cultural value to be preserved, the largest part of those holdings has a merely functional value.

Hence the state could become an owner on a rental basis, with a resultant savings of funds.

The creation of real estate investment associations, with indexed rental contracts and proper control, could offer private citizens interesting opportunities for investing their savings.

In this way, the state could free itself of vast property holdings and use the same method for new infrastructure of a real estate nature.

#### Fund To Reequip the Armed Forces ✓

The reequipment of the Armed Forces has multiannual features, and hence can be treated extrabudgetarily. The OGE will, on an annual basis, account for the installment of the amortization to be paid.

Obtaining cheap, external financing to finance this fund appears to be an easy goal to attain.

The prestige of the Armed Forces and the defense of the ethical and political values that we uphold are not compatible with the current state of our military equipment.

We have, very briefly, discussed a group of funds and instruments that would be capable of allowing for adequate floating of the OGE.

In the next articles we shall discuss each one of them in detail.

For the present, it suffices that we have established the idea that there is a great deal to be changed. That idea is already a hope.

[22 Sep 80, p 5: Restructuring Business Credits, Funds]

[Text] Throughout the revolutionary process that we have undergone since 1974, many enterprises have not withstood the impact of an unfavorable situation exacerbated by internal labor problems.

It may be said that the costs of the revolution accumulated in a vast group of enterprises in both the public and private sectors, and have been reflected in damage that has placed these enterprises in a bankrupt situation.

But the red figures on the balance sheets do not mean that the enterprises are materially destroyed. In most instances, they are still operating, have excellent facilities and equipment and contain human forces with experience and quality.

Therefore, we must view these enterprises as useful productive machines that are guaranteeing a very large number of jobs and, in certain cases, even representing activities essential to the community.

Finding the means of clearing up the economic and financial situation of the enterprises in trouble, and keeping them in operation, are indispensable from both an economic and social standpoint. Adding many tens of thousands of unemployed to those existing at present is socially undesirable and politically intolerable.

We believe that everyone would be in agreement in this regard, but that agreement has not been sufficient to bring about an attack on the problem with the courage and determination required.

The viabilization contracts represent an attempted solution whereby, through a lower interest rate for the damage converted into consolidated liabilities, an attempt has been made to bring about a rebalance in the enterprise over the medium term.

But there are instances of accumulated damage which is beyond any possible amortization. There are real gaps without any possible counterbalance in active assets, present or future.

Bankruptcy and an agreement among creditors, with a reduction in credit, could be a solution in many cases; but it must be borne in mind that this solution could cause an avalanche of bankruptcies, owing to the effects that the reductions in credit would have on the balances of other enterprises. One cannot consider the agreement among creditors as a possible formula for the enterprises under state control.

Hence, everything would appear to lead to the conclusion that the state should absorb the surplus damage from the realistically possible viabilization.

The establishment of an Enterprise Recovery Fund would permit a transfer of the damage from the enterprises to the fund, with the financing that they are now defraying also transferred.

To those constantly concerned about the increases in money supply, we shall have to say that such an increase will not occur. In fact, the damage registered is currently being financed by the banks because, if this were not the case, the enterprises would not have survived. All that will be done will be a transfer of accounts from the enterprises to the state, with the latter indebted to the banks.

After all, this damage is the 150 million contos in risky credit that the banks themselves have not had sufficient capital of their own to withstand.

We know at the outset that our solution will leave many good technicians intractable. For our part, we shall only ask whether other alternate solutions exist. To us, perpetuating the problem and aggravating it with an accumulation of interest is not an alternate solution.



The present status of these enterprises is causing irresponsibility among the administrators, both public and private, inasmuch as they are faced with impossible tasks. To lose, more or less, in a state of complete economic and financial disruption, is quite irrelevant.

It is intolerable that, on the one hand, the entire process of European integration is being accelerated and, on the other, situations the perpetuation of which is a progressive factor for deterioration remain without a swift, courageous decision. But let us turn to the operation of the Enterprise Recovery Fund.

With the damage absorbed, and the respective financing, an amortization period would have to be established, one which we think should not be less than 10 years. Each year, there would come from the OGE a sum as an amortization of the Fund; but we think that the banking system should also contribute, through its accounts providing for risky debtors.

Obviously, in putting the enterprises on a sound footing, there may be a question of the legitimacy of their owners to continue the recovery phase, and a better fortune clause that would permit the fund to receive, during the agreed upon recovery period, the profits that are produced, would be a moralizing expedient. Any of these aspects could be given treatment identical to that accorded the normal creditors' agreements.

In the last analysis, it is a matter of bankruptcies; however, their volume requires treatment on the national level that will preclude greater misfortunes.

There may be some who claim that the state cannot withstand such expenses, or that the contracts for vitalization and economic and financial recovery already made are a step toward solving the problem.

Without questioning the fact that, in some instances, the solution is in sight, I think that I am sufficiently knowledgeable about the realities not to confuse certain home treatment with the great surgical operation that we must perform.

There is another final aspect.

I have sometimes heard responsible technicians from different political areas claim that a public enterprise must be allowed to experience real bankruptcy because of the example that it could give for discipline and for making the workers acquire consciousness.

I am definitely in disagreement. Let us find solutions, let us make the decisions which are needed, and let us explain the realities, the objectives and the sacrifices that must be made. This has sufficed to embark on the course of reason. The workers have become increasingly appreciative of candid, courageous attitudes, and know now that demagoguery, bureaucracy and lukewarmness will not guarantee them bread.

[23 Sep 80, p 5: Federal Government Economic Role]

[Text] We have often heard used as an argument to justify the present law on indemnification the fact that the state cannot withstand further expenses. And the BGE, which does not allow for further expenses, is the state's own financial capacity over the long term, which is preventing a balanced reparation to the citizens who have been dispossessed of their property.

Thus, there is an acceptance in the Portuguese society that anyone who cannot pay does not pay, whereas the basic rule for economic balance has always been and will be that anyone who cannot pay, over the short or long term, does not contract debts.

If the state sets the example, it should not be found surprising that private individuals pursue the same path. If they cannot pay for social security, they do not pay; if they cannot pay taxes, they do not pay; and the same holds true for the amortization of financing with the banks, or for debts among private individuals.

The spread of this type of spirit is a source of civil disorder, producing anomalies in the operation of the economic system in all categories.

And as the number of instances increases, the legal systems for coercive execution start to break down, for lack of administrative capacity to handle an extremely high number of lawsuits. It is quite true that the present government has tried to reduce the tendencies inherited from the previous period, but we are still in the first steps of a solution.

In fact, the big step ahead will be taken when the state again maps out all its decisions in accordance with moral criteria, which will make it reliable and honest in the eyes of the citizens. And what is at stake in this moralization of the state, more than anything else, is the politicoeconomic system itself and the current legislation which serves as its framework. I myself even question whether the moralization of the state will not necessarily entail the constitutional revision.

The present law on indemnification, in this context, represents only a Marxist formula for expropriation from the citizens, which is completely dissociated from the moral principles and those of human rights which underlie a democratic design.

We must all be aware that the decisions made one night by Vasco Goncalves, with the Communist Party guiding his hand to guarantee the writing style, cannot constitute the foundation on which the just, democratic, European society that we desire will be constructed.

There will never be a question of either the state's role as investor or the control of the economic authority by the political authority, as the Marxist forces, both military and civilian, are attempting to promote.

What is in question is the mutual respect between the state and the citizens, and also the combating of bureaucratic power which has been overwhelming in Portuguese society the Christian personalism that we uphold.

Free societies are not constructed on arbitrary acts, such as nationalizations. Just societies are not constructed on evil laws, such as those on indemnification.

There may be some who consider the defense of these principles to be the defense of personal interests. I invite anyone with that view to embark on a public debate of this problem, in accordance with the principles of morality and law typical of the democratic societies.

The issuance of indemnification documents which is under way will demonstrate that, out of 160 million contos in indemnification called for, according to estimates that have been made, the so-called big stockholders (Mellos, Champalimaud, Espirito Santos, etc.) will account for no more than 20 million contos. Therefore, 140 million contos will be assigned to tens of thousands of small stockholders.

Hence, if the entire problem of indemnification and the nationalization itself should be reassessed from the standpoint of morality and law, it will also have to be questioned from the standpoint of the economy and of politics.

In any event, many of the nationalizations are actually irreversible, even if the Constitution, after the revision, allows the conversion of the present public enterprises into enterprises with mixed economy or private enterprises.

For such instances, the state need to find an appropriate formula that will enable it to meet the commitments that it has assumed.

We shall discuss this in the next article.

[24 Sep 80, p 5: Reprivatization of Nationalized Industries]

[Text] In the last article we concluded that, actually, and even if the law should so permit, there will always be a group of enterprises the nationalization of which is irreversible. The same could be said of the farm property that has been expropriated.

For our part, we have maintained that the real national interest entails a rationalization of the public enterprise sector, reprivatizing only the lagging enterprises whose management is clearly outside of the state's province. On this basis, we have also advocated the utilization of the indemnifications to start up productive investment again.

A goal of this type requires the effective rationalization of the public enterprise sector and its depolitization; the maintenance of interest and amortization periods unfavorable to those who do not attempt to mobilize

indemnifications toward investment; the establishment of highly favorable conditions for the mobilization of indemnifications toward investment; and the use of the enterprise owners making indemnification as a driving force for new investments, because only the enterprise owners making indemnifications can offer the other investment plans incentives; as well as the publication of antimonopolistic legislation that will define the groundrules and put a final end to the "taboo" of economic groups and capitalist recovery.

We have no doubt that this is the country's real interest. But the country is caught up in its usual contradictions and is wasting every day the potential which could be produced after an insane act by Vasco Goncalves, in spite of everything.

Using the indemnifications to start up investment again could represent a means of creating a new economic structure that is modern, competitive and directed toward Europe, without having met conditions of political, economic and social stability that any investor, national or foreign, will always demand.

But we are not taking this path, nor shall we, so long as the basic laws of our economic system remain unchanged. The Constitution, the law of demarcation between the public and private sector and the law on indemnification are a real blow in the neck dealt to the system which, although allowing the AD's democratic forces to win the election, are forcing it to live under a Marxist model the foundations for which were laid by Goncalvism.

The public enterprise sector, by no means rationalized or integrated into the rules of the market, is caught between monopolization in a spirit of state capitalism that is fierce, blind and deaf to the national interests, and a deterioration in results and a weakening of responsibilities.

The degree of politicization has not been reduced. Quite the contrary, the different parties are tending to obtain a number of positions in the Management Councils which is close to the composition obtained in the Assembly of the Republic.

The corruption, the parallel powers and the active or passive boycotts are burdens polluting the health of economic relations which are not in keeping with a democratic system that is being perfected.

On the other hand, the influence of the public enterprise sector in the distribution of the state's financial resources has a dimension that cannot fail to be reflected negatively on the state's action in its social functions.

The changes in the law on indemnification are insufficient to encourage new investment, and the lack of advantage for valid businessmen is visible.

All this leads me to consider whether it would be realistic to continue claiming that what has been nationalized is helping to create, through the indemnifications, a new economic structure directed toward Europe.



Shall we really be a country for this? Shall we have sufficient openness of mind to understand the potential that the negativism of the present situation, despite everything, entails? Shall we be capable of steadfastly ridding ourselves of the Marxist-oriented complexes with which they have poisoned us? Shall we have sufficient strength to abrogate the laws which are still depriving us of definitive access to liberty and democracy?

If we do not change course, we shall be doomed, sooner or later, to re-privatizing the majority of the nationalized enterprises. We shall be forced into this, more strongly than by economic reasons, for the very salvation of the political regime and the imperative nature of the social needs.

The Fund for Payment of Indemnification is a concrete formula attempting to preclude a large number of the evils cited.

No business investment can fail to be made excluding economic criteria, and the first of all of them is that any investment must have a return.

In other words, a deadline which the money invested puts in the hands of the investor. The greater the risk, the more rapid the recovery time must be, and the slighter the risk, the more prolonged that period can be.

The enterprises which the state appropriated cannot evade this rule, even those which have socially significant functions. It is not even a matter of making additional profits, but only of making a return to the investor of the amount invested. Hence the result cannot fail to be that the indemnifications must be paid by the enterprises themselves. The Fund that is advocated will be a means of making the cash assets produced by the enterprises compatible with the staggering stipulated for the amortization of the indemnification documents.

This compatibility will require that the state be financed in the banking system during a first phase and, during a second, it will carry out the pertinent amortizations with the revenue received from the enterprises. This system will involve the payment of interest, and it is not difficult to imagine that many economists will immediately claim that it is impossible to assume such an expense.

This is, in fact, a spurious administration. The interest rate is high because the inflation rate is high. Like it or not, the rate contains a component of monetary correction; not to mention the times when the interest rate was negative, during 1979, for example. That is to say, the interest rate was lower than the inflation rate.

The assets of the enterprises are assessed, every year, on the basis of the inflation rate; and if not, they should be. Prices will reflect the effect of that variation of the active assets, including the investment, and their return to the investor should be made with the respective monetary correction. If this were not the case, the recovery from the investment would be totally absorbed by the engulfing inflation.



It is, therefore, beyond any doubt that the nationalized enterprises will be required to give the state remuneration for the investments made after being corrected by the inflation rate. The problem of the high interest rate does not exist.

If another's capital pays the current market interest, it would not make sense for the remuneration of one's own capital to be less.

Hence, it would not appear difficult to conclude that the payment of indemnification should be made in a system outside of the General State Budget, which is self-supported by the nationalized enterprises themselves. That will be the best way of putting the public enterprise sector to a final test.

[25 Sep 80, p 5: Government Spending]

[Excerpt] I continue to consider the incongruities in our society. Dancing in my head are the 33 million contos which we shall spend this year with the public enterprises.

How much good can it do? How much happiness can it distribute? How many comfortable, new schoolhouses will there be? How many roads will be provided for?

I make a reckoning aloud. With 33 million contos, about 10,000 new schoolhouses used to be built. It was a new country.

Then I thought that I would receive the same subsidies as the more needy people in that country; that, actually, living in Lisbon, the state would surely subsidize me more than those people.

I feel like telling that state to do its duty, to concentrate its efforts on aid to the most needy. For my part, I don't want its aid so long as there are children in rags sleeping in the arms of women with weary appearance, with poverty marking their faces.

I also feel like asking that state what human values are preventing the action of business owners to create more jobs and better living conditions.

A kilometer from the village, a small factory is waiting for the mobilization of the indemnification for investment, so as to be able to embark on a phase of expansion, if something does not prevent it, in the name of protection of the interests of the Portuguese people.

It is a coincidence, but it is true.

[26 Sep 80, p 5: Government Subsidies (1)]

[Text] In 1974, when I stated in a televised roundtable discussion that we would have to convert the market basket subsidies into subsidies for family

allowances, because it did not make sense to subsidize the dry cereal that Mr Champalimaud was eating in the morning, I was harshly criticized by the Marxist-trained economists. The subsidies for the market basket were a fundamental part of the artificial standard of living created by the Goncalvist government.

Today, more economists are heard claiming that families should be subsidized according to their specific needs, and that the present system of subsidies for the market basket products is socially unjust.

This fact has not prevented the issue of the market basket prices from being a constant target of demagogic attacks. However, a few months ago, when I was challenged by a Communist deputy in the Assembly of the Republic on the same matter, and replied by asking whether the PC considered it a good thing for the Portuguese state to subsidize tourists and Spanish citizens in the border regions, I received no response.

There is no doubt that, since the subsidies for market basket products have been allowed to reach the current levels, it will require imagination and realism to surmount the political and economic difficulties which the clearing up of the situation will entail. But this fact does not preclude recognition of the indefinite need to make this clearing up.

The changes to be made demand, primarily, a phase of study of the channels of distribution and the formation of prices.

When the present subsidies are removed from the prices of the products, the occasion will also have to be used to clear up the distribution systems, insuring the greatest possible visibility in processes.

It is our conviction that the shortening of the routes between producers and consumers can contribute decisively to a moderation in prices. This assertion does not contain any charge against the middlemen. The middlemen have specific functions to discharge, and they should be paid adequately for them. We even think that the changes to be made will benefit everyone, from producers to consumers.

The problem lies essentially in gearing the supply to the demand in each geographical area, guaranteeing optimization of the costs of transportation and storage, and preventing seasonality, either with shortages or with abundance.

If we want a market economy, we must progress toward it making its mechanisms work. The state will always have the very difficult role of guaranteeing that the groundrules are upheld and that the competition will not be perverted. Therefore, we are quite willing for the state to purchase excess production, store it and sell it at the proper time, for the purpose of regularizing the market. The very same reasons could prompt the state to import certain products, on some occasions, although without ever succumbing to import monopolies.

Very closely linked to the distribution problems, we have the entire system of forming prices, which must become visible. In other words, all those taking part in the process have the right and the need to know the prices that are applied in each step of the distribution, including, of course, production and final consumption. Only in this way can everyone make the alternative decisions which will optimize the final results. The generalization of the supply and demand on a national scale, through an integrated organization of the supplying markets, will represent a very important step in the entire process, and even in the development of agriculture.

Another aspect to be taken into account relates to the need for making a distinction between subsidies for production and subsidies for consumption; because at present that distinction is very difficult to make.

In fact, the need for every country to have a minimum degree of self-sufficiency in basic products, specifically in food products, stems from economic reasons associated with the equilibrium in the balance of current transactions; and also from strategic reasons, not only in the realm of political strategy, but also in that of military strategy.

Hence we deem it essential to subsidize certain products which we are not naturally inclined to produce, on a level that will make it possible to maintain an adequate production volume from the standpoint of international competition, especially insofar as the Common Market is concerned.

Obviously, this type of subsidy for production does not have social purposes, and is along the line of the general orientation of a political, military and economic strategy for survival and relative national independence.

If Portugal were in a position to do the same thing that Erhardt did in the Federal Republic of Germany after World War II, perhaps the country could have been made to progress spectacularly toward a real market economy.

Overnight, Erhardt repealed the entire legislation on prices, embarking on a liberal type policy that became the mainstay of the German economic miracle, as part of a philosophy of prosperity for all.

After some jolts, which the Adenauer government managed to withstand, the FRG emerged from the inflexible system in which it was living and resolutely advanced toward the future that it is renowned for today.

Erhardt encountered as opponents all the socialist forces of Europe, who are always bound to an excessive, ineffective state control. But his theories prevailed and, from an economic standpoint, the FRG was converted from a loser to a winner.

[30 Sep 80, p 5: Government Subsidies (II)]

[Text] If our balance of payments were to withstand the impact of an increase in imports resulting from the freeing of the latter, so as to establish a

healthy competition on the market, I am convinced that the prices of many products would drop drastically.

One need only consider the international prices of certain products to conclude that this is so. But the status of the balance of payments is not of a type to advance this process, without guaranteeing the minimum amount of security. The competition with national products appears less of a problem, inasmuch as a distinction is made between subsidies for production and consumption, and it is considered that the subsidies for production are subordinate to strategic factors.

It is an area on which there will have to be concrete negotiation with the members of the Common Market, who are also the NATO allies, and as interested as we are in the defense strategy of the West. Portugal represents a rear-guard of obvious military interest.

All that we have been proposing with regard to the market basket is merely to bring our economy to an encounter with the truth, and the truth is an essential mainstay of democracy.

The difficulties that are predicted cannot cause us to stop, but only to be more cautious in the course to be undertaken.

The study of the channels of distribution and the formation of prices will be a kind of X-ray of the Portuguese economy. There are already some working on this, and the first results lead to the conclusion that, in spite of everything, the task is considerably easier than it appeared at first glance.

When prices are geared to the realities, it may perhaps be possible to gain sufficiently in productivity, production and distribution to prevent prices from rising and to release about two tens of millions of contos to aid the more underprivileged Portuguese: an authentic social revolution and a means of spurring on our economy.

A brief numerical exercise can give us an idea of what is involved. Nearly 20 million contos in subsidies represent 2,000 escudos per citizen. We shall admit that a third of the Portuguese people do not need to be subsidized, owing to their income level, another third would maintain the subsidy in the current amounts and the final third would receive, in addition, the subsidies taken from the first group. Every citizen in the least privileged group would receive 4,000 escudos per year, and a family group of four would receive 16,000 escudos per year.

It is not difficult to imagine, as a mere example, that a system of this kind would allow for a 20 or 25 percent increase in the national minimum wage, in terms of family subsidies; or that substantial aid could be given to poor students, or there could be a series of other alternate uses for the released subsidies.

It is not difficult to imagine that, considering the total free services that can be individualized, the sum would far exceed 20 million contos, and, on the other hand, that a division of the population into three groups also appears as an overly simplistic criterion.

The benefits could be far more extensive if we took this exercise much further.

In this regard, sociological studies will have to be made, which will make it possible to soundly back the justice of the transfers to be made to the citizens. Furthermore, we cannot overlook the degree of educational development among the different strata, which could lead, not to the assignment of funds supplementary to pay, but rather to subsidies to individuals for the purchase of specific services.

In other words, it will not suffice to increase the income of every group; in an initial phase, it will be important to guarantee that the allocations are made in a rational manner.

The disorder in consumption produced after 25 April, with the verified wage increases, is proof that education and increases in purchasing power should be parallel, so that the latter will be marked by indisputable social usefulness.

The citizens must be calmly assisted in putting their consumption priorities in order, and establishing a proper balance between consumption and savings. In this way, inflationary pressure will be avoided, and the social advancement of the Portuguese people will be carried out in depth.

Imagination, the principles of Christian personalism and democratic experience will preclude the creation of "standardized" models of consumption, and will guarantee the citizens one of their essential liberties: the one consisting of choosing their consumption.

[2 Oct 80, p 5: Political Parties, Economic Involvement]

[Text] A few days ago, upon listening to Dr Victor Constancio, on FRS [Republican Socialist Front] air time, I was perplexed to note his unrestricted sponsorship of the Front's promises and assertions. I am well aware that the desire to win votes leads to many things, but I never thought that the technician Victor Constancio was as compromising as the politician of the same name.

However, if in the Second Constitutional Government, Dr Constancio had had such a proclivity toward politics, things would have occurred less badly, without his having any need to renege on the technical field.

The analysis of the FRS' promises is not the purpose of this series of articles, and therefore I shall not make it; but Dr Victor Constancio's speech suggests to me some comments the importance of which to aid in reassessing the Portuguese economy appears evident to me.



Some economists in Portugal have managed to find strange ways of feeling gratified, or even victorious.

They reduce real wages, they reduce investments, and they shout victory because the deficit in the balance of current transactions has been reduced.

They contract new loans abroad, for which they do not know how to pay, and triumphantly claim that the exchange situation has improved.

After these successes, they say: now investment can be restarted; now the standard of living of the Portuguese people can be improved.

It is not difficult to guess that, when investment is restarted and the standard of living improved, the deficit in the balance of current transactions will increase and the exchange crises will occur. This is so because everything is occurring within an economy that is only slightly less than stagnant. If it is not completely so it is not for lack of effort by the economists themselves, but only because there still exist some stubborn private business owners who have not stopped and have even increased their exports. To be sure, that increase has not gone unnoticed, and it is quickly added to the curriculum vitae of our producers of economic miracles.

Some time ago, a friend told me that the management of our economic crisis has been done with the boring system. That is, we are always digging in the same place, and burying the crisis increasingly deeper.

I do not think that the conclusions of the aforementioned economists are actually far removed from certain conclusions of Mr De La Palisse.

If so-and-so had not died today, he would still be alive; when one cuts off the current, the light goes out, etc.

Now suppose that a political party were to state publicly that it has cut off the power and extinguished the light. The voters would consider it natural. And that it has cut off the power because it lacks money to pay for it; and there is no other remedy than to live in darkness. The voters would certainly conclude that they were in great trouble. But the party would continue: Be calm, the neighbors have lent us money to pay for the power and, thanks to that loan, we can turn on the lights again.

At that point, the voters would applaud, because it is always the custom to applaud when the light is turned on. But some would ask: How are the neighbors going to be paid?

To this, the economists would reply, offering indexes more or less, that the situation is excellent, because whereas last month they were asking 150 to pay for the power, this month, thanks to the courageous action that prompted us to turn off the lights, they are only asking 80.

And, as a final conclusion, the politicians and economists, with hands outstretched, would tell the voters: See how good we are, when we turn off the lights we consume less energy.

The more skeptical voters, inwardly, would not cease to believe that if it were not for the neighbors, they would be in darkness.

In writing this article, I am not attempting to offend anyone, because I value greatly cordial relations with both my fellow party members and my adversaries. But I am rather fearful that, because of so much drilling in the same place, we may all be buried under the drill.

The Portuguese situation, despite the efforts of the present government during its brief period of intervention, calls to mind the short story of a small truck that was transporting holes. One day, the driver was distracted, went into reverse and the truck fell into the hole.

Transporting holes is a dangerous activity.

During the 1980's we must be sufficiently realistic to seal the holes that exist.

[3 Oct 80, p 5: Budgetary, Planning Problems]

[Text] Although we may run the risk of breaking the reasoning process that we have been applying to the budgetary problems, we do not want to miss the opportunity to analyze some comments which have reached us, directly or indirectly, and which, of course, contain a critical judgment of the suggestions that we have made.

I also think that this is a useful way of producing consensus, outside of the reserved area of offices, and within the sight of a population whose destiny is at stake.

There are some who think that they see in the proposals that we have made a means of increasing the state's expenses and not of curbing them. That is not our goal, nor will it be the actual end result of the group of suggestions that I have submitted.

Let us begin by discussing the falsehood of the permanent debt, considering that this debt has limits. With regard to various aspects, we have cited the need to establish amortization plans for debts contracted by the state.

We maintain that the state cannot continue to bear certain charges, and will have to take options. We have been clearcut in this respect, with the view that the state must attach greater importance to its social obligations.

Everything that we say and shall say is aimed at putting the expenses in order, allowing certain concealed charges to be explained, solving problems,

restoring relative balance to the budget and, in particular, finding out where we are going and what we want.

In our opinion, as in that of any other person, the relative rebalancing of the OGE is a task for a period of time, wherein the decisions made each year are part of a more extensive plan.

In a modern state, to think in terms of one year is absurd. If the private enterprises have not yet succeeded in doing useful work outside of long-term planning, it does not seem to us that the state can operate differently.

It should be stressed that I do not advocate the planning of our economy in the bureaucratic terms usually typical of such planning; but I consider it impossible to run a country, or an enterprise, without having established long term objectives and considered the necessary means of attaining them, as well as the work methods that are to be used.

The state must act in an atmosphere of great austerity with regard to spending, but that austerity must be carried out with intelligence and flexibility.

Blind, inflexible austerity usually produces effects contrary to those that are sought.

Since the state's greatest expense is that resulting from the payment of salaries to civil servants, we shall cite two examples in the enterprise area which may explain the difference that exists between intelligent, flexible management and blind, inflexible management.

In a large public enterprise, a foreign organization firm concluded, from a diagnosis that it made, that there was excess personnel, and it computed that excess as a third.

Drastically, the administration decided that there would be no further hirings.

Very soon, some departments began to be bottlenecked, with no recourse other than to subcontract to other enterprises the functions incumbent upon them.

The decision that was made by the administration was disregarded, and the enterprise has not ceased increasing the number of its employees.

In a large private enterprise, when the ratios of production per employee were analyzed, it was concluded that they were lower than in the similar foreign enterprises.

It was then decided that the enterprise should have a physiological balance of zero during the next 5 years. A careful study revealed that the sales personnel should be excluded from the measure, and their productivity was analyzed separately.

To attain the proposed objective, it was necessary to centralize the decisions on the hiring of personnel and to act resolutely; but the essential factor for change lay in the reformulation and mechanization of jobs, and in the reconversion, transfer and training of personnel.

During the 5-year period, the enterprise experienced a state of constant change, in a state of turmoil. But, when the 5 years had elapsed, sales had multiplied five times and the number of employees was slightly less than that 5 years previous.

During the interval, every decision that was made attempted to consider the difficulties to be confronted and to use the imaginative capacity of all the collaborators of the enterprise. The number of jobs which disappeared because they were useless jobs was impressive. Mechanized jobs again became manual, because that was the most profitable way of performing them. Others, on the contrary, were mechanized in a sophisticated manner. A team of psychologists attempted to adapt the individuals to jobs best suited to their capacities.

The decentralization and assignment of responsibility saved on communications, and helped the enterprise's collaborators to obtain greater professional satisfaction.

Everything was challenged. The transformation and change began to be appreciated by the employees, who were now incapable of being bound to old bureaucracy and lack of productivity.

The example of the second enterprise needs to be applied to the Portuguese state.

Do we have sufficient openness to put it into practice? Or shall we succumb to the status of the first enterprise that was described? This is the living portrait of our public administration. Why not admit it? It is the CP [Portuguese Railroad Company].

Editor's Note: Starting today, and for a few days, A TARDE is discontinuing this important series of articles by its esteemed collaborator, Dr Luis Barbosa, at the express wish of the author.

2909

CSO: 3101

## 'CUMHURIYET' DISCUSSES STATUS OF NATO SOUTHEAST

Istanbul CUMHURIYET in Turkish 4 Sep 80 pp 1, 9

[Text] Efforts intended to bring Greece back into the military wing of NATO have noticeably increased in Ankara and Athens. The NATO supreme commander, General Rodgers, would appear to be the prime mover behind these efforts, by reason of his confidential visits to both cities. The fact that negotiations have been carried on behind closed doors and have been kept restricted to a very small circle creates difficulties in evaluating what stage they may have reached. However, information which has leaked out recently, especially from Western diplomatic sources, may offer some clues.

According to these reports some progress has been recorded in resolving the problem; Ankara and Athens have come to the point of a common understanding with regard to holding discussions and have shown mutual "flexibility." Greece has abandoned its earlier insistence upon returning under the same conditions which prevailed prior to 1974 and has agreed to relegate the question of command in the Aegean Sea to later arrangements. Turkey in turn has changed its view that the question of command over Aegean air and naval forces should be worked out conclusively before Greece's return. According to its new position the command control question may be taken up by all parties after Greece has rejoined the military wing.

Reports appearing in the press to this effect have not yet been denied. On the contrary, developments within the Ministry of Foreign Affairs would appear to give credence to them. Thus it would appear that Turkey has made a major change in a policy it has insisted upon since 1974.

Up until 1974 control over air and naval maneuvers in the Aegean Sea was entirely in the hands of Greece, with the exception of Turkish continental waters. In the days which followed the Turkish peace operation in Cyprus and Greece's withdrawal from the military arm of NATO the Ecevit government declared that the command control arrangements which had governed up to that time were no longer valid. Not stopping at that, the principle was asserted that any new arrangement must precede Greece's return. The logic underlying this fundamental principle, which up to the present has been meticulously adhered to, is as follows: Letting the problem wait until Greece's return could lead to its solution being dragged out indefinitely and even set back to its beginnings again, because NATO decisions must be arrived at unanimously. Thus Greece, once it were a member again, could exercise its veto to turn back any arrangement which would be in conformance with Turkey's national interests.



Another dangerous trend in the Demirel government is the attempt to consider the Aegean question as a purely "military" one quite apart from its own political responsibility. Despite the fact that diplomatic efforts have been going on for two or three months already the upper echelons of the Foreign Ministry are as good as cut out of them. Up to the present the issue has been submitted to the minister only in a few notes. We have witnessed yet another instance of the disturbing mentality which was exhibited in the lifting of Notam No 714. In the cancellation of this Notam, which symbolized the fact that we could not abandon preeminence in the Aegean to Greece, the Secretariat General of the Foreign Ministry even was bypassed...

The Aegean command question was set up contrary to Turkey's national interests and presented as a fait accompli. It has been a continuous source of problems. And now, to say "yes" to Greece's return to NATO without first reaching a solution to this issue will amount to setting up another fait accompli. And the political responsibility for this will rest, without any doubt whatever, with the Demirel minority government.

9353

CSO: 4907

## EUROPEAN-TURKISH RELATIONS AFTER COUP EXAMINED

Istanbul CUMHURİYET in Turkish 21 Sep 80 pp 1,5

/Text/ According to an ANATOLIAN AGENCY report, a motion concerning Turkey has been adopted by the majority of Socialist, Christian Democrat and Liberal representatives at the European Parliament. The motion calls upon Turkey to respect human rights and uphold its obligations to the EC. On the other hand, the parliament rejected a motion by the communist group, which wanted Turkey to suspend its relations with the EC.

As known, Athens-EC relations were suspended during the time of the junta of the "colonels" who came to power with a coup in 1967 in Greece. Reports from the European Parliament indicate that the West is applying different standards to the "12 September action" and does not consider it the same as the military dictatorship in Greece. In fact, British Prime Minister Margaret Thatcher's statement in this regard reflects the general trend in the Western world. Mrs Thatcher said, "Turkey is very important for NATO and the Western alliance. Of course, we want to see peace in Turkey and the continuation of economic development."

What the West expects is clarified in these words by the British prime minister: "It was quite natural that we should help Turkey while it was confronted by such serious economic problems. Turkey is now confronted by certain political changes. It is too early to tell what these changes will mean."

Nevertheless, it is necessary to draw attention to a dilemma in the EC attitude toward Turkey. Ankara had been met with obstacles and barriers when it applied for full membership in the EC. The West was hesitant to adopt Turkey in the full sense. West Germany's visa plan for Turks is also an example of the tendency to exclude our country. Despite this, it is a fact that the West will not abandon Turkey in the world conjuncture of the 1980's. The EC does not want to take Turkey into full membership, but it rejects the proposal to suspend its relations with Turkey in the EC parliament.

Doubtless, this picture is a reflection of a fact and has some coherence even though it appears contradictory. It is necessary, first of all, for Turkey to resolve its own problems itself. Turkey is neither Greece, nor Iran. It is a nation to be evaluated within its own unique structure and circumstances. If we wish to take our place within the general scope of Western standards, it is also necessary that our opinions as to what these standards are be clarified.

Today, we are neither in nor out of the EC. The disadvantages that this circumstance may create in the long run also need to be taken into account.

Drawing up a balance sheet of reports from Western sources, it seems that the 12 September action is being met with understanding and that a waiting period is felt to be necessary. This gives Ankara the time it needs for introspection and action.

8349

CSO: 4907

## 'CUMHURIYET' WARNS OF SEVERITY OF DOMESTIC CRISIS

Istanbul CUMHURIYET in Turkish 4 Sep 80 pp 1, 9

[Text] On 3 September 1980 the headlines on the first page of CUMHURIYET read, "Twenty-three persons killed in 11 cities, one a gendarmerie noncommissioned officer, two teachers and four students."

The noteworthy point to this headline is the fact that the breakdown in casualties is given according to profession. On the same page of our newspaper in smaller type the daily terror figures were worked out as follows:

"The car of the Ordu Governor was shot up...Two students among those killed in Ankara...Three killed in Istanbul yesterday, one an RPP member...The son of a master sergeant among those killed in the Kigi incidents...Among the five killed in Adana two were tradesmen and one a teacher...A primary school principal dies in an armed assault, while three are slaughtered in Idil...Murderers of resigned policeman captured, two killed..."

Over a period of time the character of journalism has changed. It has turned into a profession which is carried on under very difficult conditions. Because while every day our newspaper's editorial section is working out the day's breakdown of dead and wounded the problem is becoming one which does not just concern our profession. At the same time we perceive a social wound which is daily growing gangrenous. What is the job of a newspaper man in such a bloody environment and in a society where the most sacred of human rights, the right to live, is being violated? Is society losing its sensitivity and reaction to these deaths? Every evening the prime minister comes on television and behaves as if nothing had happened and then quite comfortably shifts into political polemics against his adversaries.

All right then, who shall be held accountable for the terror which these charts show to be gradually mounting? Even now some newspapers are demoting terrorist incidents to the second page in favor of enlarging upon the gossip about a night club star. This development symbolizes the ultimate deterioration of our profession. The press is in the process of becoming powerless to influence society, government, state leadership or parliament. At any rate societies which ignore the warning signals of dangerous indications frequently, like a tree which is rotten at the center, may suddenly fall. Those who linger near the trunk of that tree are the ones who pass over with vacant eyes the pictures of the daily victims displayed on the front pages of the newspapers.

To repeat, the indicators in our social and political life are all registering danger. In a society where 10, 20 or 30 persons are killed every day by terrorists, productive capacity also has fallen below 50 percent. This situation cannot continue.

There is a rule in aviation. A plane in take-off loses the possibility of returning to the field at a certain point. The republican social order in Turkey is about to pass that point. Above all the responsible officials in the minority government must gather their wits about them. The newspapers today are enlarging upon the whisper of news which cannot be published because of martial law. Anyway news which cannot be published has more impact. The martial law is troubled, the police are troubled, civil servants are troubled, the people are troubled.

Prime Minister Suleyman Demirel's effort to appear at ease on television is pointless in such a context.

9353

CSO: 4907



## FUNDS BEING FUNNELED OUT OF COUNTRY

Istanbul CUMHURIYET in Turkish 4 Sep 80 pp 1, 9

[Text] According to a report sent by the U.S. Treasury Department a number of Turkish citizens living in the U.S. have been purposely violating the immigration laws of that country and have also been bringing large amounts of money into the country by illegal means.

In the report, which was sent to Turkish party leaders, the National Intelligence Organization and a number of newspapers, the identities of persons who have been openly violating U.S. laws and who have been making large money transfers or have been acting as accessories in these activities were disclosed.

## Fictitious Firms

The report, which was intended to prevent the violation of U.S. immigration laws and the illegal transfer of money, dwelt in particular upon a Turkish citizen named Ibrahim Gunyuzu and a firm which he had established by the name of Century Fiduciary California, Inc. in partnership with Necdet Cobanlı, Hasan Esen and a Swiss firm called Necotex.

According to the information submitted this firm is operating for the purpose of obtaining for its clients permission for permanent residence in the U.S. (green card) and making large money transfers to the U.S. from Turkey via Europe, Canada, the Karayip [as published] Islands and Mexico. This organization, which charges Turks who wish to obtain green cards 20-50 thousand dollars, later assists these persons in establishing firms in America. The report states that up to the present time six Turkish citizens have established firms in this manner and that these firms are fictitious in character (the report calls them "paper establishments"). Attached to the report are photocopies of the permits for the establishment of these firms, which were set up in violation of the law. According to these photocopies the names of these firms and their founders, all of which have the same address, are as follows:

Century Fiduciary Inc. (Ibrahim Gunyuzu, Necdet Cobanlı, Hasan Esen and a Swiss firm by the name of Necotex, S.A. which was formed by Necdet Cobanlı and some other Turkish citizens), Erat Inc. (Belma Cobanlı, Ali Enis Ciftci), Canma Inc. (Fusun Dobra, A. Yasar Malta), Teprex Inc. (Beverly Langdon, Albert Ozeskenazi), Harisen Inc. (Richard Gunda, Hasan Esen, Rifat Esen), Iskan Construction Company, Inc. (Richard Gunda, Ismet Uskan), Vefa California, Inc. (Richard Gunda, Zeki Ekemen, Vedia Ekemen).

## Money to be Smuggled Out of Turkey

The report claims that these establishments have made annual investments in real property and shares of nearly \$100,000 (8 million TL) and that the money for this has been brought into the U.S. from Turkey via illegal channels. It is stated that the transactions have not been carried out by traditional banking procedures but with money carried into the U.S. by Turkish citizens on their persons and without disclosure to customs officials. It is said that Necdet Cobanli especially has made numerous trips abroad during the year for this purpose.

## Another Report

Another report prepared by the same organization and sent to the California Criminal Investigation Service [as published] and the State Attorney General cites the names of Turks who have been smuggling currency in similar operations. This second report also dwells primarily upon Necdet Cobanli and later on mentions Turkish citizens by the name of Oguz Avdan, Emir Hasan, the David. Eter Pincas couple, the Vahdet-Fusun Dobra couple and Turgut Demirag.

According to the information presented Oguz Avdan, who carries both a U.S. and a Turkish passport goes to Turkey and to his London residence several times each year and carries money to the U.S. Emir Hasan, who also carries both U.S. and Turkish passports is said to operate as a broker in petroleum transactions with an annual income of around \$500,000. According to information in the report the David and Eter Pincas couple also carry both Turkish and U.S. passports and make numerous trips abroad each year, during which they bring antiques, jewelry and money back into the U.S. Vahdet and Fusun Dobra also carry both passports and bring in money to the U.S. in the same way. It is stated that Turgut Demirag, who uses a Turkish passport, has bought quite a lot of real property in Southern California with money he has brought in from Turkey via illegal channels.

## Demirag's Statement

In an interview we held with Turgut Demirag, one of the persons cited in the report, he denied the charges and said that he had not smuggled money out of Turkey. He later confirmed that he had bought two houses [in southern California] and claimed that he had done so with the help of friends he had come to know there.

9353

CSO: 4907

## 'MILLI GAZETE' EVALUATES EVREN'S PRESS CONFERENCE

Istanbul MILLI GAZETE in Turkish 21 Sep 80 pp 1,7

/Article by Ahmet Miroglu/

/Text/ Many people tend to evaluate the action which the Armed Forces initiated by order and throughout the chain of command on 12 September according to their own understanding and the feeling in their hearts. In fact, a few of the large circulation newspapers have distorted the true cause, meaning and nature of this action, thinking, in their own misguided way, that they could mislead the valued members of the Turkish Armed Forces. For this reason, Mr Evren's press conference was watched and evaluated with great interest both by the foreign and domestic press and by our beloved nation.

We, too, will express in this article, which is to be continued for a number of days, our views on Mr Evren's press conference.

The head of state, Mr Evren, gave most weight in his press conference to the integrity, unity, togetherness and brotherhood of the nation. He complained that religious, ethnic and regional differences between the individuals of a nation who have lived as brothers on this soil for a thousand years, sharing the same history, beliefs, national and moral values, culture, customs and traditions, have been exploited in divisive and separatist ideas traitorously planted and nourished, whether intentionally or inadvertently, by certain domestic and foreign agitators.

In our view, this is the problem with which our nation must deal in the first instance. Artificial differences, enmities and distinctions such as left-right and Sunni-Alevi have been being implanted for years among the people of this beloved nation, people who live in the same city, neighbors who live in the same community by certain newspapers, parties and internal and foreign agitators. We are distressed to see that despite the desire for unity, togetherness, brotherhood, love, compassion, tolerance for oneself, one's neighbors and other brothers which lies at the basis of our belief, all these values have been forgotten; enmity has replaced brotherhood, hate has replaced love and compassion and guns, bombs and dynamite have replaced tolerance.

"Brotherhood of 45 million," "There is no room for brute force, bombs and dynamite between brothers," "Our way is the way of the heart, of love and compassion" which for many years a believing cadre shouted as though their throats would burst have not been heard enough in all this chaos.

Now we have an historic opportunity ahead of us as a nation. We may use the action which began on 12 September to bind our wounds and to give precedence to such values as love, affection, brotherhood and compassion instead of malice, hatred, enmity and brutality. Therefore, everyone has great tasks to perform, whether military or civilian, press, party or bureaucrat. We must all cooperate against any who would make the 12 September action a means for new worry, new pain and disappointment rather than for binding wounds and giving precedence to love and brotherhood.

Mr Evren's statements at his press conference about binding all past wounds, not causing new wounds, pain and suffering, were like oil poured on the troubled waters of our nation.

In fact, Mr Evren, contrary to the wishes of certain known circles and part of the press, stated definitely that the party leaders would be returned to their homes very soon and that the democratic system would be operating with all its institutions as soon as possible.

It is our belief that the writhing of certain known circles with which our nation is now well acquainted to the contrary, the 12 September action cannot be diverted from the main goal of establishing unity, togetherness and brotherhood and making love and compassion predominant. The guarantee of this is the believing and patriotic members of our honored army.

8349

CSO: 4907

## FLAG SALES UP IN LIBERATED ZONES

Istanbul TERCUMAN in Turkish 25 Sep 80 pp 1,12

/Article by Kemal Onder/

/Text/ There is peace and quiet today in the "liberated regions" of yesterday where even the inhabitants who had lived in them for years were "scared to death" until the Turkish Armed Forces' "12 September action."

The areas known as liberated zones in Istanbul, as in other cities throughout the nation, have the peace they have so long desired following the clean-up, thanks to the "state force," of the terrorists, members of illegal organizations, militants and other outlaws.

In 1 May Quarter, Tepe Usteleri on the Bosphorus, Okmeydani, Hisarustu, Sanayi Quarter and Gultepe where 2 weeks ago armed toughs patrolled the streets, most stores were closed, protection money was collected from businessmen and local inhabitants could not go out on the streets, the citizens have now taken down their shutters and stroll to their heart's content along the streets and avenues and on the sidewalks in front of the stores. One frequently encounters flag vendors here now.

We toured the liberated regions of yesterday. All of them have cleaned the slogans off their walls. One sees vigorous activity at the grocers, the meat markets, the fruit stands. Businessmen and citizens conduct their transactions in safety. Children go to school in safety and play ball in the squares. Housewives are free to hang out their wash, men young and old sit in the coffeehouses in peace.

At the fruit seller's in Okmeydani where we saw a lively commerce, we also saw smiles on the faces of the customers. We saw the same on the faces of the children in Hisarustu and of the women who sat gossiping on rugs they had spread in front of their single-story houses.

We walked over to them. They were not frightened, and neither were we. They gave the same earnest answers to our questions. Seventy-year-old Hayriye Nine from Sivas told us:

"Why should we be afraid, son? May Allah give strength to our General Evren, to our other generals, to our soldiers, to our police, in short to all our state forces. Long may they live. But I am not lying when I tell you that until the state force came in, I could not come out to sit in this garden without fear any more than you could come into this area. But now we can have a friendly chat and that means there is peace here."



We changed course and went to Talatpasa Avenue in Gultepe where, until 12 September, stores were being bombed and burned and almost 100 people had been sacrificed to anarchy. All the stores were open; the avenue was chock full of citizens walking, shopping, going about their business in peace. And we chanced to see an interesting incident on Talatpasa Avenue. There was a vendor, loaded down with the Crescent and Star, shouting, "Flags, get your flags." Tradesmen and people alike were scrambling for flags.

We approached them. The vendor and his customers said that they were doing their shopping on the avenue without fear, in peace. They answered our questions as follows:

"The state force broke the back of the extreme leftist organizations here and cleaned the militants out of Gultepe. Now we have no one to be afraid of. We have the peace and security we have longed for and missed for many years. The Republic Holiday is coming up and we are starting to get ready for it now. You will see, we will deck out our Gultepe, where a flag could not be seen or raised until two weeks ago, in the Star and Crescent from head to foot on Republic Day."

8349

CSO: 4907

## EFFORTS SPEEDED FOR MILITARY-INDUSTRIAL COMPLEX

Istanbul CUMHURIYET in Turkish 17 Sep 80 p 5

/Article by Selim Yalciner/

/Text/ Following the Turkish Armed Forces' total takeover of the administration of the nation, efforts reportedly are being stepped up for a military-industrial complex designed to produce military equipment and supplies with the public and private sectors in cooperation. According to information obtained, planning will go forward on export-oriented production based on foundations emphasizing high quality steel, combined cycle technology and metal casting. Experts and authorities questioned about their views on the subject pointed out that Turkey now has the technology to make a military-industrial complex possible.

The experts said that certain sectors tend to be carried along in nations' efforts to industrialize and will show qualitative differences as to textiles, heavy industry, tourism, automotive or energy, depending on the time and conditions. As for the arms industry, the need for it to be organized so as to take in more or less all of the above sectors is stressed, and improvement of the foreign exchange deficits of developing nations is said to be possible through efforts directed toward the production and export of specific goods.

## Arms Industry

The view is defended that industrializing and developing nations can open up various areas for themselves and can achieve "take off" only by concentrating their activities in these areas and breaking the exportation vicious cycle. Educators and experts maintain that "the arms sector is a very productive and development-attracting sector within changing world balances for non-oil producing nations." One educator from the Istanbul University Faculty of Economics said the following about the arms industry:

"The developed nations have for years enjoyed the advantages of having a monopoly on production, distribution and sales in certain specific areas. Loss of this advantage would occur at some point. As this point approaches, at least the conditions to allow strides to be taken in certain production areas must be sought, and Turkey should make a great effort to fill the vacuum that will occur. There is no question but that a nation with a population approaching 45 million to 50 million could stay on top of this developmental rate."

### High Quality Steel

According to the information obtained, one area in which attention is concentrated in the ongoing efforts for a military-industrial complex is the development of certain production stages as a foundation. The first line in these efforts is said to be the use of quality steel production for military-industrial purposes. Work is going forward on combined cycle technology in the casting and metal industry and this is said to be under evaluation in conjunction with quality steel production. Getting the most -- through increased exports -- out of armaments, which are affected by constantly changing economic, political and social balances, is said to be possible by keeping in constant touch with general world politics, and by concentrating especially on the production of conventional weapons, it is said that foreign exchange revenues can be increased.

8349

CSO: 4907

## TURK-IS UNIONS TO BE REOPENED

Istanbul CUMHURİYET in Turkish 23 Sep 80 pp 1,5

[Text] ISTANBUL NEW SERVICE -- Procedures were under way yesterday for the re-opening of TURK-IS /Turkish Confederation of Labor/ unions closed by the martial law commanders. However, a letter from TURK-IS to the unions being reopened in this connection asked that union activities be curtailed until further notice as a measure of assistance to the efforts of the /National Security/ Council /NSC/

Moreover, dockets which local police stations had certain unions whose opening procedures were under way sign pointed out that the unions were open, that the seal had been removed but that union activity would not be resumed.

In a letter sent to all its member unions, TURK-IS stressed that the TURK-IS unions were open, requested their assistance in the efforts of the NSC and pointed out the need for the suspension of such union activities as organizing, training, general assemblies and representative elections.

As known, activities of DISK /Confederation of Revolutionary Worker Unions/, MİSK /Confederation of Nationalist Labor Unions/ and HAK-IS /Turkish Moral Rights Workers' Union/ unions were halted by NSC decisions no. 3 and 8 and their property and bank accounts were placed under custody. The martial law commanders also effectively closed the headquarters and branches of many TURK-IS unions. These unions later began gradually to reopen as the result of TURK-IS appeals. Meanwhile, the Labor Ministry announcement was published in the RESMÎ GAZETE, giving lists containing the known names and addresses of the three confederations which had been closed earlier by decision no 8 and later of TURK-IS and all independent unions. Varying interpretations were given to these lists which were published in consequence of decision no 8, and TURK-IS announced that the lists had been published in order to avoid any error, that TURK-IS unions were not closed and were not covered by the scope of decision no 8.

Search activities have been going on for 4 days at DISK, which was closed by NSC decisions nos 3 and 8 and had its building sealed and its bank account seized. Security officers, accompanied by DISK President Abdullah Basturk and Vice President Rıza Güven, came to the DISK building, examined documents one by one and confiscated some documents, books and brochures. Results of the search and document examination activities reportedly will be made public later.

## ULUSU OUTLINES BUDGET GOALS

Istanbul TERCUMAN in Turkish 25 Sep 80 pp 1,12

Tezi Ankara (MEDITERRANEAN AGENCY) -- Prime Minister Bulent Ulusu sent a circular on the "1981 budget notice" to the ministries and agencies. The prime minister said, "The basic goal of the budget is to be careful of savings in every area and to make the best use of KIT /Public Economic Enterprises/ resources."

According to the announcement by the prime minister's press advisor, Prime Minister Ulusu stressed that the "agencies are to accept as the first point of departure in budget preparations the fact that the nation's resources are limited."

Ulusu noted that the general condition of the country and the basic goals we wish to achieve as a nation had been pointed out in the chief of staff and National Security Council chairman's communique which was also published in the 12 September RESMI GAZETE and continued as follows:

"The general budget offices and mixed budget administrations, in light of this communique, will prepare their budget proposals for fiscal 1981 in accordance with the goals and principles specified below and send them as soon as possible to the Finance Ministry.

"Our basic goal as a nation is to become the best and finest in the world along the path on which the great Ataturk set our country and to allow our nation to emerge at the highest level of modern civilization. We must get on as soon as possible to a period of rapid development aimed toward this goal.

"As known, our nation and our economy is undergoing a serious crisis under the accumulation of economic and social problems. The solution of our problems shows the need for effective measures and new arrangements in every area. The state budget is very important in implementation of the economic stabilization program from the standpoint of both identifying the scope, nature and direction of the public services and being the means of pulling the economy together and giving it direction.

"In their budget preparations, the agencies will take as the first point of departure the fact that the resources of the nation are limited. The basic goal in implementation of the budget is to be careful of savings in every area and to make the best use of the KIT's.



"All requirements in the budget proposals are to be reviewed realistically and those services whose realization and progress in fiscal year 1981 are absolutely necessary will be included in the budgets."

Prime Minister Bulent Ulusu listed as follows the goals to be given priority in deciding on the service programs to be placed in the budgets:

--To provide efficiently, without interruption and within existing possibilities, the basic services to our citizens,

--To overcome the production bottlenecks such as the foreign exchange squeeze and energy and raw material shortages which hamper the full use even of existing capacity,

--To achieve price stability and create a secure climate in which the economy will be able to operate normally,

--To introduce improvements insofar as the budget will allow for the fixed and low income groups such as civil servants, workers and peasants who are hardest hit by inflation.

#### "Work on Government Program"

Prime Minister Bulent Ulusu said that preparation of the government program was in progress and that he could not set a limit as to when the work would be completed.

Ulusu said the following in this regard:

"Our efforts to prepare a government program are moving forward. Each ministry is working within its own structure in connection with the government program. I cannot set a limit as to when work on the program will be completed. However, we are working to get the new program prepared as soon as possible. We may be finished by the end of the week or it may be next week. I cannot give a definite date on this."

Expressing his views on the Iran-Iraq war, Prime Minister Bulent Ulusu said, "our foreign minister, Mr. Ilter Turkmen, has made an announcement on this matter. This war between two nations which are friends and neighbors is a matter of concern to us. Our government is deeply interested in the matter and is closely watching developments in the war between Iraq and Iran."

8349

CSO: 4907

## DEV-YOL ATTEMPTING TO PARTITION ANKARA

Istanbul HURRIYET in Turkish 4 Sep 80 pp 1, 17

[Article by Oktay Ozeskici]

[Text] It has become known that the militants of the outlaw Dev-Yol [Revolutionary Way] organization which has figured in bloody incidents recently have drawn up plans by localities in the provinces where it intends to instigate future incidents.

It is understood that the militants have determined street by street who lives in every house and their political views. It has been learned that the organization has designated certain areas as, in their own words, "hot districts," where they believe they can bring about incidents of larger dimensions, and that they are now in the preparatory stages. In a secret communication which the organization has circulated to its various local leadership they have asked them to indicate on a map which shows local political, military and geographical landmarks whether or not the local inhabitants include groups of "Kurds, Turks, Azeri or Georgians and to submit detailed reports on this subject."

## Plan and Secret Communication Seized

In one district of the nation's capital, which the Dev-Yol organization had designated as a "liberated area," but which the security forces did not further identify, a large-scale operation was conducted. When the local leader of Dev-Yol fled he failed to destroy a number of secret documents. The documents seized referred to long-range plans, which heretofore had not been implemented and included annotated maps of a number of districts.

A study of the captured maps disclosed that plans had been made for the district, street by street, and the names of the inhabitants, their residences and political views were noted.

Residents were described on the map as, "fascist Unal, grocer fascist, fascist from Yukselis, Erol brother of policewoman, Kurd, reactionary." The report which accompanied the map included the names of persons with no established opinions and characteristics of the district.

Secret Document

The following points were asked of the local leaders in the secret letter sent to them:

- 1 --The strategic importance of the district from the standpoint of the struggle (political, military, geographic),
- 2 --The social composition of the local population,
- 3 --The situation with respect to the worker: villager, youth, petit bourgeois makeup of the population,
- 4 --The Alevi-Sunni question--does it exist? If so, details;
- 5 --The political composition of the Alevis and the Sunnis: their tribal relationships,
- 6 --Are there enclaves of Kurds, Turks, Azeris, Georgians, Laz, etc.; the political aspects of their interrelationships,
- 7 --Principal sources of earnings, the income situation, economic structure and establishments,
- 8 --Is there a population movement out of the region? What are the reasons for this? To what other areas? Is there any reverse movement? If so where are they settling? Numbers of migrants,
- 9 --Economic centers, places where development is under way or that are open for development,
- 10 --Literacy rate among the population,
- 11 --Political trends among the populace, vote counts for the various parties (estimates), estimate of voting strength of leftist groups,
- 12 --Attitudes of the populace toward revolutionary and fascist elements.
- 13 --Strength of the fascists, their popular base, degree of organization among the grass-roots, degree of importance they accord to the area, what work areas do they enter and how?

Procedures to be followed in the preparation of this map were spelled out as follows:

"The preparation of the map must be a team effort, its importance must be explained to the committees and the information obtained must be subjected to debate. The information must be absolutely correct.

--Statistics must be employed,

--The study must not rely solely upon information obtained by our own people.  
Information known to the public must also be brought to bear,

--Some information should be indicated on the map, while other points should be  
developed in a detailed report."

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END

**END OF  
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DATE FILMED**

November 5 1980

D.S.